The Federal Budget and the Nonprofit Sector

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The Federal Budget and the Nonprofit Sector

THE NONPROFIT SECTOR PROJECT

Lester M. Salamon, Director

The Urban Institute's Nonprofit Sector Project is a broad-gauged inquiry into the role and character of private, nonprofit organizations, the relationships between these organizations and other segments of American society, and the impact on them and those they serve of recent changes in public policy. The project involves several different types of analysis being conducted at the national level and in sixteen locales throughout the country. This report is one in a series that will be produced as part of this project over the next several years.

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The Federal Budget and the Nonprofit Sector

Lester M. Salamon
Alan J. Abramson

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CONTENTS

PREFACE		xiii
ABOUT THE AUTHORS		xv
SUMMARY OF PRINCIPAL FINDINGS		xvii
1.	INTRODUCTION	1
	Objectives	2
	Structure of this Presentation	3
	Caveats	4
2.	THE NONPROFIT SECTOR: AN OVERVIEW	9
	Scope and Structure of the Charitable Service Sector	10
	The Private Philanthropic Base	16
	Summary	18
3.	THE FEDERAL BUDGET AND THE NEED FOR NONPROFIT SERVICES	21
	Federal Activity in Fields Where Nonprofits Are Active	22
	The Impact of the Reagan Budget	25
	The Implications for Nonprofit Providers	31
	Conclusion	33
4.	THE FEDERAL BUDGET AND NONPROFIT REVENUES	35
	The Background: The Origins and Scope of Nonprofit Federalism	37
	The Impact of the Reagan Budget on Nonprofit Revenues	46
	The Implications for Nonprofit Organizations	53
5.	THE CHALLENGE TO PRIVATE GIVING	57
	Private Giving and the Need for Nonprofit Services	59
	Private Giving and the Revenues of Nonprofit Organizations	62
	Conclusion	65
6.	THE BUDGET CHANGES IN DETAIL	67
	Social Service Organizations	67
	Community Development Organizations	73
	Education and Research Organizations	78
	Health Care Organizations	82
	Foreign Assistance Organizations	86
	Cultural Organizations	89
7.	EPILOGUE - CONGRESSIONAL ACTION ON THE FY 1983 BUDGET: THE FIRST BUDGET RESOLUTION	95

APPENDIX

A. A LAYMAN'S GUIDE TO BUDGETING 101
B. GROUPING OF IRS ACTIVITY CODES FOR USE FOR ANALYSIS OF THE SCOPE OF THE NONPROFIT SECTOR 107
C. CURRENT-DOLLAR COUNTERPARTS TO TABLES 6, 7, 13, 14 111

TABLES

1 The Charitable Nonprofit Sector, 1977 13
2 Expenditures/Revenues of Charitable Nonprofit Service Organizations, 1980 15
3 Private Charitable Giving as a Share of Nonprofit Revenues, 1980 17
4 Private Giving as a Share of Nonprofit Revenues, by Type of Organization, 1980 18
5 Federal Outlays in Fields Where Nonprofits Are Active, 1980 24
6 Proposed Reductions in Federal Outlays in Fields Where Nonprofit Organizations Are Active, FY 1982-85, in Constant 1980 Dollars 26
7 Proposed Changes in Federal Outlays in Nonprofit Fields of Activity, by Field, FY 1982-85, Administration Proposals vs. FY 1980 Levels, in Constant 1980 Dollars 30
8 Increased Nonprofit Activity Needed to Compensate for Federal Budget Cuts, FY 1982-85 32
9 Federal Tax Subsidies to Nonprofit Organizations, FY 1980 36
10 Nonprofit Revenues from Federal Sources, FY 1980 43
11 Nonprofit Revenues from Federal Sources Compared to Private Giving and Total Nonprofit Revenues, by Type of Organization, FY 1980 44
12 Federal Government Support of Nonprofit Organizations, FY 1980, by Avenue of Assistance 45
13 Projected Nonprofit Revenues from Federal Sources, FY 1982-85, President's Budget vs. Actual FY 1980 Levels, in Constant 1980 Dollars 48
14 Proposed Changes in Nonprofit Revenues from Federal Sources, FY 1982-85, President's Budget vs. 1980 Actual Receipts, by Type of Nonprofit Organization, in Constant 1980 Dollars 51
15 Projected Nonprofit Revenues from Federal Sources, by Form of Assistance, FY 1980 vs. FY 1985, in Constant 1980 Dollars 52
16 Proposed Reductions in Nonprofit Revenues from Federal Sources in Relation to Total Nonprofit Revenues, FY 1982-85 vs. FY 1980, by Type of Nonprofit Organization, in Constant 1980 Dollars 56
17 Increase in Private Giving Needed to Offset Proposed Federal Budget Cuts in Nonprofit Fields of Activity, FY 1982 60
18 Change in Private Giving Needed to Offset Projected Federal Budget Cuts in Nonprofit Fields of Activity, in Current Dollars 62
19 Change in Private Giving Needed to Offset the Effect of Federal Budget Cuts on Nonprofit Revenues, FY 1982-85, in Current Dollars 63

20 Proposed Changes in Federal Outlays in Social Service and Employment and Training Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 69

21 Proposed Changes in Federal Outlays in Income Assistance Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 70

22 Proposed Changes in Nonprofit Social Service Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars 73

23 Proposed Changes in Federal Outlays in Community Development Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 75

24 Proposed Changes in Federal Outlays in Environment and Conservation Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 76

25 Proposed Changes in Nonprofit Community Development Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars 77

26 Proposed Changes in Federal Outlays in Education and Research and Development Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 79

27 Proposed Changes in Nonprofit Education and Research Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars 81

28 Proposed Changes in Federal Outlays in Health Care Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 83

29 Proposed Changes in Nonprofit Health Care Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Receipts, in Constant 1980 Dollars 85

30 Proposed Changes in Federal Outlays in Foreign Aid Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 87

31 Proposed Changes in Nonprofit Foreign Aid Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars 89

32 Proposed Changes in Federal Outlays in Arts and Culture Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars 90

33 Proposed Changes in Nonprofit Arts and Culture Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars 92

34 Total Federal Outlays, FY 1982-85, President Reagan's FY 1983 Budget vs. the First Congressional FY 1983 Budget Resolution, in Actual Dollars 97

35 Total Federal Outlays, FY 1982-85, the First Congressional FY 1983 Budget Resolution vs. President Reagan's FY 1983 Budget, in Constant 1980 Dollars 97

36 Proposed Changes in Federal Outlays in Selected Functions, FY 1982-85, Actual FY 1980 Spending vs. President Reagan's FY 1983 Budget vs. the First Congressional FY 1983 Budget Resolution, in Constant 1980 Dollars 99

C-1 Proposed Reductions in Federal Outlays in Fields Where Nonprofit Organizations Are Active, FY 1982-85, Administration Proposals vs. FY 1980 Levels, in Current Dollars 113

C-2 Proposed Changes in Federal Outlays in Nonprofit Fields of Activity, by Field, FY 1982-85, Administration Proposals vs. FY 1980 Levels, in Current Dollars 114

C-3 Projected Nonprofit Revenues from Federal Sources, FY 1982-85, President's Budget vs. Actual FY 1980 Levels, in Current Dollars 115

C-4 Proposed Changes in Nonprofit Revenues from Federal Sources, FY 1982-85, President's Budget vs. FY 1980 Actual Spending Levels, by Type of Nonprofit Organization, in Current Dollars 116

FIGURES

1 Proposed Spending on Programs of Interest to Nonprofit Organizations, FY 1982-85, President's FY 1983 Budget vs. Actual FY 1980 Spending, in Constant 1980 Dollars 27

2 Proposed Spending Changes in Programs of Interest to Nonprofits, FY 1980 vs. FY 1985, in Constant 1980 Dollars 29

3 Channels of Public Funding of Nonprofit Organizations 41

4 Projected Nonprofit Revenues from Federal Sources, FY 1982-85, President's FY 1983 Budget vs. Actual FY 1980 Levels, in Constant 1980 Dollars 47

5 Proposed Changes in Nonprofit Revenues from Federal Sources, FY 1980 vs. Proposed FY 1985, by Type of Organization, in Constant 1980 Dollars 49

6 Nonprofit Revenues from Federal Sources, FY 1980 vs. FY 1985, in Constant 1980 Dollars 50

7 The Need for Selected Nonprofit Services vs. the Projected Revenues of Nonprofit Organizations, FY 1980 vs. FY 1985, in Constant 1980 Dollars 55

8 Federal Outlays for Selected Public Services, FY 1982-85, Actual FY 1980 Levels vs. President's FY 1983 Budget Proposals, in Constant 1980 Dollars 58

9 Increase in Private Giving Needed to Offset Projected Federal Budget Cuts and Keep Pace with Inflation in Nonprofit Fields of Activity, 1982-85, in Current Dollars 61

10 Change in Private Giving Needed to Keep Pace with Inflation and Offset the Effect of Federal Budget Cuts on Nonprofit Revenues, 1982-85, in Current Dollars 64

PREFACE

Recent national policy developments have placed new emphasis and new demands on private, nonprofit organizations while exposing these organizations to considerable fiscal uncertainty. Despite their long history, and their important role in the delivery of a wide variety of services, far too little is known about these organizations and how these developments will affect them. As a result, key decisions that may have substantial implications for the nonprofit sector are being made without the benefit of adequate information or analysis.

The present monograph is intended to help remedy this situation, by providing some basic information on the scope and structure of this sector and analyzing the potential implications for it of the major national policy choices now under debate.

In completing this report, we benefited greatly from the analytical and research skills of Michael Gutowski, James Musselwhite, Karen Hawley, James Cline, and William Trautman; the typing assistance of Harriett Page and Maria Waters; computer services assistance of Al Gillespie; and the insights of Sue Marshall, Randy Bovbjerg, Greg Mills, and other colleagues at The Urban Institute. Anita MacIntosh held the process together, carefully and with infectious good cheer.

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public servants in executive-branch agencies, in the Office of Management and Budget, and in the Congressional Budget Office, who took time to share with us their understanding of program operations and budget developments.

Naturally, neither these individuals and organizations, nor The Urban Institute, is responsible for the content of this report or for any of its conclusions. For that, the responsibility is ours alone.

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SUMMARY OF PRINCIPAL FINDINGS

Private nonprofit organizations play a vital role in American life. However, these organizations are too often overlooked in public policy discussions. This monograph provides important new data on the scope and structure of the nonprofit sector, the relationships between this sector and government, and the likely impact on it of the budget proposals advanced by the Reagan administration in 1981 and 1982 and partly enacted by Congress. Among the principal findings of this work are the following:

- Hospitals, universities, social service agencies, neighborhood organizations and other private nonprofit organizations stand to lose $33 billion in federal support over FY 1982-85 under the Reagan administration's most recent budget proposals.

- These reductions occur at a time when the federal government is reducing its own activities in fields where nonprofit organizations are active by $115 billion, thereby increasing the need for nonprofit services.

- Most hard hit by these changes will be nonprofit social service agencies and community organizations, which will lose one-fourth to one-third of their total revenues as a result. Also affected significantly will be educational and research institutions.

- These revenue losses reflect the fact that private nonprofit organizations are extensively involved in the running of public programs and the delivery of services financed by federal funds. In fact, private nonprofit organizations now receive a larger share of their total revenues from the federal government than from all of private giving combined, including giving by individuals, corporations, and foundations ($40.4 billion vs. $25.5 billion in 1980). As a result the same cutbacks in federal activity that increase the need for nonprofit services also reduce the revenues nonprofit organizations have available to serve even existing needs.

- To offset this lost federal revenue and permit nonprofits to maintain their 1980 service levels, private giving would have to grow over the next four years by 30 to 40 percent a year or three to four times faster than it has over the past several decades.

- To close the entire public service gap left by the $115 billion reduction in federal activity in fields where nonprofit organizations are active, private charitable giving during FY 1982-85 would have to grow by 90 to 100 percent a year--eight times faster than the highest growth rate it has ever achieved.

- Private nonprofit organizations constitute a vital part of the nation's service delivery system. They account for much of the health care, cultural life, civic action, research, social services, and higher education provided in this country. They serve as the principal mechanism for channeling private charitable resources into the solution of community problems. In 1980, these organizations had revenues totaling $116.4 billion. Of this total, approximately 22 percent came from private contributions and about 35 percent from federal government sources.

- Although Congress has modified the budget proposals for FY 1982-85 advanced by the Reagan administration in February 1982, these modifications retain the basic structure of the budget program proposed by the president in the areas of principal concern to nonprofit organizations. Based on preliminary information available to date, Congress appears to be in agreement with the administration with respect to 75 percent of the cuts proposed in these particular programs.

CHAPTER 1

INTRODUCTION

Nonprofit organizations have long played a special role in American life. The services they provide--including health care, education, research, cultural activities, social services, community organization and improvement, and public advocacy--touch virtually all the nation's citizens, rich and poor, young and old. They do so, moreover, in a way that buttresses important national values stressing private action and voluntary effort in the pursuit of community goals. Nonprofit organizations are, in fact, the chief non-governmental providers of "public goods." Although private in structure, they are essentially public in purpose, providing the major vehicle for channeling private charitable resources into the solution of community problems and serving as a crucial mechanism for facilitating organized action on a variety of social, political, economic, and cultural objectives.

Despite their importance, however, nonprofit organizations are poorly understood. Even the basic scope and structure of the nonprofit sector are largely unknown, while key facets of the sector's relationships with other segments of American society have hardly been explored.

This situation would be a matter of concern under any circumstances, but it has become an issue of special urgency in recent years as a result of the dramatic changes in public policy launched by the Reagan administration in early 1981. On the one hand, these changes have placed vast new responsibilities onto nonprofits as part of a broad-gauged effort to reduce the role of government in American society and to increase reliance on private

institutions to cope with national problems instead. Ironically, however, while exposing nonprofit organizations to sizable new demands, these same changes threaten to reduce substantially the resources that nonprofits have available to provide even their existing levels of service. This is so because nonprofits are often actively involved as partners of government in the operation of public programs; thus the same budget cuts that reduce the role of the public sector also undermine the financial health of private, nonprofit organizations. Under these circumstances, it is vital to understand how the public and nonprofit sectors interact, and how changes of the sort embodied in the Reagan administration's Economic Recovery Program will affect private, nonprofit institutions.

Objectives

This report is intended to contribute to that understanding. It does so by building upon two earlier reports we completed in 1981.[1] The first of these identified, for the first time, the extent of nonprofit involvement in federal program activity and assessed the likely consequences for nonprofit organizations of the budget proposals advanced by the Reagan administration in February 1981 for the period FY 1981-84. The second analyzed the implications for private charitable giving of the changes in tax policy incorporated in the Economic Recovery Tax Act of 1981.

The present report goes beyond these earlier analyses in two ways: first, by updating the basic budget analysis to take account of congressional action

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1. Lester M. Salamon with Alan J. Abramson, The Federal Government and the Nonprofit Sector: Implications of the Reagan Budget Proposals (Washington, D.C.: The Urban Institute, 1981); and Charles T. Clotfelter and Lester M. Salamon, The Federal Government and the Nonprofit Sector: The Impact of the 1981 Tax Act on Individual Charitable Giving (Washington, D.C.: The Urban Institute, 1981).

on the FY 1982 budget and additional administration proposals for the period FY 1983-85; and second, by putting these budget-related changes into better context in terms of the overall pattern of federal support of the sector and in terms of the overall revenues of various types of nonprofit organizations. This report should thus make it possible to put the current challenge to this sector into proper perspective and to understand more systematically the basic scope and structure of this important component of national life.

Throughout this analysis, two types of budget-related impacts on nonprofit organizations are of interest:

- o First, impacts on the demand, or need, for nonprofit services. A central tenet of the Economic Recovery Program is that government has usurped functions that really should be handled privately. Cutting back on government provision of services is thus likely to increase the need for services from private, voluntary agencies, since as government pulls back, people will have to turn to nonprofit providers instead. One measure of the impact of federal budget decisions on nonprofit organizations, therefore, is the extent of federal withdrawal from fields in which nonprofit organizations have traditionally been active.

- o Second, impacts on the revenues of nonprofit organizations. Because nonprofit organizations are directly involved in the delivery of many publicly financed services, federal budget cuts affect not only the need for nonprofit services, but also the resources available to these providers to meet even existing needs. Thus, a second, more direct, measure of the impact of federal budget cuts on nonprofit organizations is the revenue that nonprofit organizations stand to lose as a consequence of these cuts.

Structure of this Presentation

To assess these impacts, the discussion here is organized into seven chapters. The remainder of this chapter identifies a number of caveats that have guided the analysis. Chapter 2 draws on two new sources of statistical data to clarify the basic scope and structure of the nonprofit sector. Chapter 3 examines the relationship between the federal budget and the need for nonprofit services, analyzing first the extent of federal involvement in

fields where nonprofit organizations are active, and then projecting the changes in that involvement proposed for the next several years. Chapter 4 focuses on the revenues that nonprofit organizations receive from government and the impact that the budget proposals now under consideration are likely to have on them. Chapter 5 seeks to put the challenge that has now been posed to nonprofit organizations into context by comparing the increased need for nonprofit services and the projected losses in nonprofit revenues from federal sources to existing levels of private giving. Chapter 6 provides a more detailed look at the proposed budget and program changes that lie behind the aggregate data reported in the previous chapters and spells out the implications for particular classes of nonprofit organizations--social service, community development, education and research, health care, foreign assistance, and cultural. Chapter 7, the Epilogue, goes beyond the analysis of administration proposals earlier in the book to examine congressional action on the FY 1983 budget to date.

Caveats

Before turning to the body of this analysis, it is important to identify a number of caveats that shape the discussion throughout.

- Use of Administration Budget Proposals and Economic Assumptions

  Most of the budget data used in this book are based on the budget proposals advanced by the Reagan administration in its FY 1983 budget, unveiled in February 1982. This budget estimates spending levels for FY 1982 in the light of congressional action on the FY 1982 budget, makes formal proposals for FY 1983 spending, and projects spending over FY 1984 and 1985.

  Given the exigencies of federal budgeting, there is no guarantee that the administration's budget proposals for FY 1983-85 will correspond to the amounts actually spent by federal agencies in these years. In fact, key elements of the president's proposals for FY 1983 have already been rejected by Congress and an alternative congressional version of the budget is in the process of being assembled.

Nonetheless, the administration proposal is still the most suitable focus for attention here for a number of reasons. First, although Congress is in the process of developing an alternative budget of its own, this process is far from complete as of this writing. To date, Congress has passed its First Budget Resolution, which sets targets for budget reductions by broad budget functions, but the implementing details have yet to be determined, and may not have been determined by the time the new fiscal year begins in October 1982. Second, the congressional budget alternative, while different from the administration's proposal, is not fundamentally different in the program areas of interest to us here. This point is detailed in chapter 7, which compares the administration's proposals in the areas of interest to nonprofit organizations to what is known about congressional action to date. Finally, whatever the congressional action, the administration proposals continue to define the terms of debate on the budget, not only for this year but for the foreseeable future as well. It is therefore important to understand the implications of these proposals as a baseline against which to compare other developments.

The analysis here should be treated, therefore, less as a prediction of what will happen than as a projection of what would happen if the administration's proposals were enacted. Consistent with this approach, the analysis here also takes as given the administration's economic assumptions, including its projections about inflation.

o Use of Outlay Data

The budget numbers used throughout this analysis relate to "outlays," the actual expenditures of government agencies in a particular period. Many official budget discussions take place, by contrast, in terms of "budget authority," the legal authority to enter into commitments to spend public funds. Because of the complexity of government programs, it is frequently the case that not all the budget authority granted for a particular program is spent in the year for which it was made available. By the same token, reductions in budget authority enacted in one year may not take effect until a subsequent year because of the backlog of uncommitted and unspent prior authority. Since it is the actual impact of budget decisions on nonprofit agency activity that is of interest here, outlays seem a more appropriate measure. It should be noted, however, that the relationship between outlays and budget authority in any program is far from precise and that the estimates of these relationships provided in the official budget documents rely heavily on a variety of rules of thumb. (For readers interested in a fuller discussion of these terms, and of the budget process, a layman's guide to budgeting is provided in appendix A.)

- Focus on Federal Resources and Actions Only

Many of the programs targeted for cuts in the administration's budget proposals involve matching relationships with state and local governments. No attempt is made here to calculate the state or local resources involved in these programs, however. Nor is any effort made to gauge how state and local governments will react to federal cutbacks, whether they will substitute state and local resources for lost federal revenues, maintain their existing levels of spending on these activities, or make similar cuts themselves. Finally, no effort is made to assess whether state and local governments will alter their reliance on nonprofit organizations as a consequence of budget reductions. Rather, it is assumed that the mix between direct provision of services, contracting with for-profit providers, and contracting with nonprofit providers will remain the same in the foreseeable future as it has been in the recent past. Because of the likely pressures on state and local governments to maintain existing staffing levels in government agencies, this assumption probably understates the impact of proposed budget reductions on nonprofit providers.

- Reliance on 1980 Baseline and Constant Dollar Comparisons

A crucial issue in assessing the impact of proposed spending levels is to decide what basis of comparison to use. What makes this issue tricky is that at a time of inflation, the basic measuring rod used for assessing government activity--the dollar--is itself changing. Under these circumstances, to compare spending in one year to spending for the same activities in another year without adjusting for inflation is like measuring something with a shrinking yardstick and declaring that it has grown when in fact it may have stayed the same or shrunk a bit.

To cope with this situation, two options are available. First, a proposed stream of spending can be compared with the levels of spending in a base year in the dollars of that base year. Or the same comparison can be made in the dollars of the years in which the spending is to occur. In percentage terms, these two routes are identical. In absolute terms, however, the latter route yields larger numbers because, as the value of the dollar declines, it takes more of them to purchase a given level of service. A variant of this second route is to adjust the base year figures not only for inflation, but for other factors affecting the costs of the same basic level of service--such as changing economic or demographic circumstances that may alter the size of the eligible population. This variant is the one mandated by the 1974 Budget and Impoundment Act, which stipulated that the president should calculate a "current services budget" against which to compare administration requests.

The approach adopted here is the most conservative of the three noted above. In particular, we compare the proposed spending levels advanced in the administration's budget for FY 1982-85 to actual spending levels for the same activities in FY 1980; and we make these comparisons in 1980 dollars, using the administration's own economic assumptions for the adjustment. The one exception to this approach is in the area of health finance, where rapid changes in utilization rates and related demographic changes dictate that adjustments be made for these factors as well. To do this, a special deflator was used based on administration estimates of the growth in health care costs and medical program eligibility and use.

For readers who prefer a current-dollar expression of the differences between FY 1980 program levels and those proposed for FY 1982-85, appendix C provides the same data in current-dollar terms.

- No Assessment of the Merits of Budget Proposals or of Other Features of the Administration's Economic Recovery Program

The central purpose of the analysis presented here is to assess the implications of the administration's budget proposals, and of congressional action on these proposals to date, for nonprofit organizations and those they serve. No attempt is made here to evaluate the merits or drawbacks either of the administration's budget strategy as a whole, or of particular proposals. Such evaluations are important, but they lie beyond the scope of this report. Readers must therefore apply their own judgments about the strengths or weaknesses of particular programs and activities to the numbers provided here in order to reach a conclusion about whether these changes are, on balance, good or bad. By the same token, no attempt is made here to examine the likely effects on nonprofit organizations of other parts of the Reagan administration's program, such as the Tax Act of 1981 or the Task Force on Private Sector Initiatives launched in late 1981. With regard to the first, we concluded in an earlier analysis that the overall effect would likely be to dampen the growth of private giving, even if the economy performed as vigorously as the administration projected, which it has not. With regard to the second, too little time has elapsed to permit a reasonable assessment of the Task Force's accomplishments. In both cases, however, this report can serve a useful function by identifying more clearly the true scope of the challenge these other measures must address.

Against the backdrop of these caveats, let us look more closely at the scope and structure of the nonprofit sector to set the stage for assessing how the current budget proposals would affect it.

CHAPTER 2

THE NONPROFIT SECTOR: AN OVERVIEW

The nonprofit sector is a vast and diverse collection of organizations. It embraces entities as amorphous as informal neighborhood clubs and as highly structured as multimillion-dollar medical complexes. As defined by the Internal Revenue Code, it includes mutual insurance companies and day care centers, churches and chambers of commerce, museums and hospitals, farm cooperatives and universities, private foundations and nursing homes, social service agencies and art galleries.

What sets nonprofit organizations apart from the two other major types of organizations in American society, businesses and governments, is the fact that they are privately controlled yet do not exist primarily to earn a profit. Beyond this, however, nonprofit organizations have as many differences as similarities. In fact, it is possible to distinguish three, and possibly four, distinct types. The first are funding agencies, or fund-raising intermediaries, which exist not so much to deliver services as to channel resources to those who do. Included here are private foundations, United Way organizations, Blue Cross and Blue Shield, and other federated funders. The second class are organizations that exist primarily to provide goods or services to their immediate members, rather than to society or the community at large. Included here are professional organizations, unions, trade associations, and the like. The third are organizations that exist primarily to serve others, to provide goods or services to those in need or otherwise to contribute to the general welfare. Included here are educational

institutions, cultural institutions, social welfare agencies, day care centers, nursing homes, hospitals, and the like. The fourth category, which embraces religious congregations, may not be a separate class at all, but a part of the second or third. Yet churches and other primarily religious bodies have a character that is distinctive enough to warrant separate grouping. Among other things, they are exempt from the reporting requirements of federal tax laws.

Of these four types of nonprofit organizations, the ones of greatest concern to us here are those in the third group. These are the organizations most directly involved in delivering services that promote community welfare or serve broad charitable or educational purposes.[1]

Scope and Structure of the Charitable Service Sector

These charitable service organizations have long played a vital role in American life. They supply a considerable portion of the social services, health care, education, research, culture, community improvement, and public advocacy that occur in the country. In the process, they provide an important mechanism by which groups of citizens can band together in support of a wide variety of community purposes and a channel through which philanthropic impulses can be applied to worthwhile goals.

Despite their importance, however, we know precious little about these organizations. To be sure, nonprofit organizations other than churches are

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1. These organizations generally fall under two of the nineteen sections of the Internal Revenue Code under which organizations can claim tax-exempt, or nonprofit, status: sections 501(c)(3) and 501(c)(4). However, these two sections also embrace churches, foundations, and other fund-raising organizations that are not of concern here. Our focus, therefore, is on a subset of all 501(c)(3)- and 501(c)(4)-eligible organizations--i.e., those that deliver services of a charitable, educational, or related character and serve the general welfare.

required each year to file a special return (form 990) with the Internal Revenue Service listing all receipts as well as related financial data. However, the data resulting from this requirement have numerous imperfections that have impeded serious analysis. For one thing, there is considerable double counting because service providers and funding agents are grouped together in the data. A United Way grant to a nonprofit organization thus shows up twice, once as revenue for the United Way and once as revenue for the nonprofit organization. Although the Internal Revenue Service has an activity-code system that could be used to reduce this double counting, in practice the code is grossly imperfect, and many organizations are coded incorrectly. This is especially true in view of the fact that the IRS records only one activity code for each organization in the machine-readable format of the data, and this code frequently turns out to be inappropriate.[2] Sorting the data by activity codes alone can thus lead to grossly misleading conclusions. Beyond this, compliance with the reporting requirements seems extremely uneven. Numerous organizations apparently do not file their forms, and others do so incorrectly.

Fortunately, a much more rigorous body of statistical data on the nonprofit sector has now become available thanks to a special Census survey of tax-exempt service providers conducted in 1977 and published in 1981. Drawing on IRS lists of nonprofit organizations and other sources,[3] the Census Bureau made a serious effort to exclude funding organizations and eliminate double

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2. In the IRS data, for example, the Rockefeller Foundation is listed as a medical research institute instead of a foundation; the Carnegie Corporation is classified as an educational institution; and Loyola University of Chicago shows up as a church.

3. Chief among these was the list of organizations that had applied for exemption from payment of Social Security taxes, a privilege granted only to nonprofit firms.

counting in the data it collected. Focusing on organizations with at least one paid employee, the Census survey identified 165,614 nonprofit service organizations as of 1977. Of these, 103,066 fall within the charitable, service-providing category of organizations of interest to us here.[4]

As noted in table 1, these 103,066 organizations had expenditures in 1977 of nearly $73 billion and employed 4.4 million people. Hence, the sector accounted for almost 5 percent of the gross domestic product and for one-third of the employment in the rapidly growing services portion of the nation's economy. Put somewhat differently, nonprofit organizations employed five times as many people as the automobile industry.

The sector's expenditures and employment are not, of course, spread evenly among the organizations. The most numerous organizations are social service providers, which account for more than 40 percent of the total organizations. The second most numerous are civic, social, and fraternal organizations, which account for 33 percent of the organizations. By contrast, most of the sector's resources are in the health care field. Representing only 11.9 percent of the organizations, health care organizations nevertheless accounted for 55 percent of nonprofit employment and 60 percent of the sector's expenditures in 1977. The average health care organization was thus twelve times as large as the typical social service agency in terms of employment, and eighteen times as large in terms of expenditures. Social service

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4. The remaining 62,548 organizations identified by the Census survey included 23,418 labor unions, 1,123 political organizations, 16,618 business and professional associations, 7,386 other membership organizations, 446 business service organizations, 5,910 sports and recreation clubs, 3,096 organizational hotels and lodging houses, 826 sporting and recreational camps, and 3,725 other organizations. Taken together, these organizations accounted for only $12.6 billion of the $85.4 billion in expenditures of all nonprofit organizations included in the Census survey. See the U.S. Bureau of the Census, 1977 Census of Service Industries, Other Service Industries (January 1981).

organizations are therefore likely to be far more fragile and vulnerable to change.

Table 1

The Charitable Nonprofit Sector, 1977
(Dollars in billions)

Type of Organization	Establishments		Expenditures		Employees	
	Number	Percent of Total	Amount	Percent of Total	Number (thousands)	Percent of Total
Social/Legal Services	42,084	40.8%	$ 8.6	11.8%	688.9	15.6%
Civic, Social, Fraternal	34,121	33.2	3.6	4.9	255.9	5.8
Education/Research	11.034	10.7	15.5	21.4	980.1	22.2
Health Care	12,307	11.9	44.0	60.4	2,431.0	55.0
Arts/Culture	3,480	3.4	1.1	1.5	59.8	15.6
TOTAL	103,066	100.0%	$72.8	100.0%	4,415.7	100.0%

Source: U.S. Bureau of the Census, 1977 Census of Service Industries, January 1981.

To obtain a more up-to-date picture of this sector, we have "aged" the basic Census data on the sector to 1980 and compared it with the picture of the sector that emerges from the data that nonprofit organizations provided to the IRS for 1980, after correcting these data to exclude funding organizations and to take account of the miscoding of entries.[5] As reflected in table 2,

5. The aging of the Census data was done by assuming that all parts of the sector other than the health care component grew at about the same rate as the gross domestic product, and that the health care component grew at about the same rate as overall health care expenditures. Because the large federal public sector employment program was created during this period and benefited nonprofits, a special modification was also introduced to accommodate it.

The IRS data were adjusted in three steps: First, using a tape of all 501(c)(3) and 501(c)(4) organizations provided by IRS from its Exempt Organizations Master File, we deleted all organizations with activity codes suggesting they were not part of the charitable service component of the

these two estimates of the scope of the sector as of 1980 are quite similar. The update of the 1977 Census data shows a sector with 1980 expenditures of $103.9 billion. The adjusted IRS data show a sector with 1980 revenues of $128.6 billion.

Because the Census data represent a projection, report expenditures instead of revenues, and include only organizations with one or more employees, and because the IRS data probably still contain some double counting and miscoding despite our best efforts to adjust for these problems, we have developed a composite estimate of the scope of the sector by averaging the two. The resulting figures have been verified, moreover, by comparing them with independent estimates of the scope of components of the sector developed by umbrella organizations representing these components (e.g., the National Center for Education Statistics and the American Hospital Association).

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nonprofit sector of interest to us here. (A full listing of the included and excluded codes is provided in appendix B.) This adjustment reduced the total revenues of the sector from $215 billion on the raw IRS list to $174 billion, chiefly by deleting double counting. Second, to correct for miscoding among the remaining organizations, we examined the 500 largest organizations individually and deleted those that should have been coded in the excluded codes and shifted those that were appropriately included but in the wrong category. As it turned out, organizations representing another $38.8 billion in revenues that should have been deleted were identified through this process; dropping them reduced the total revenues from $174.1 billion to $135.3 billion.

Finally, a random sample of 1,000 organizations was selected from the overall IRS file and the activity-code listings for the entire file were adjusted in proportion to the miscoding found through an inspection of this random sample. For example, in our sample of 1,000 organizations, several large hospitals were found coded as educational institutions. To correct for this, an equivalent share of the total revenue of the set of organizations found in this activity code was allocated to the health care subsector. Similarly, numerous foundations, federated funding agents, Blue Cross organizations, business associations, and other organizations that lay outside our area of interest were discovered, and proportionate adjustments made to delete these from the overall totals as well. This final adjustment reduced the total revenues reported by another $6.7 billion, to $128.6 billion, which represents our best estimate of the size of the charitable and educational, nonprofit, service sector as it is portrayed in the IRS 990 data.

Table 2

Expenditures/Revenues of Charitable Nonprofit Service Organizations, 1980
(Dollars in billions)

Type of Organization	Basis of Estimate			
	Census Data[a]	IRS Data[b]	Composite	
			Amount	As a Percent of Total
Social Services	$ 11.9	$ 14.4	$ 13.2	11%
Community Development, Civic	5.0	5.8	5.4	5
Education/Research	21.2	29.1	25.2	22
Health Care	64.3	75.7	70.0	60
Arts/Culture	1.5	3.6	2.6	2
TOTAL	$103.9	$128.6	$116.4	100%

a. Based on 1977 Census of Service Industries adjusted for the growth of the gross domestic product and of health care expenditures between 1977 and 1980. Dollar amounts are expenditures.

b. Based on form 990 filings posted to the Exempt Organizations Master File, after adjustments for double counting and miscoding. Dollar amounts are revenues.

Based on these sources, it seems safe to conclude that the charitable nonprofit service sector, excluding churches, had revenues of approximately $116 billion in FY 1980, as shown in table 2. Of this total, hospitals and health care organizations accounted for 60 percent of the total, education and research organizations for 22 percent, and social welfare and community development organizations for 16 percent.[6]

Among other things, these data suggest that the nonprofit sector has kept pace with the growth of the economy as a whole during at least the latter

6. A note of caution is in order about the classification of organizations into particular groupings here because of the gross imperfections of the IRS activity coding system. For a listing of the codes included in each grouping, see appendix B.

1970s, and that the health care component has grown even more rapidly. This is evident from the fact that the estimate based on the 1977 Census data adjusted for the overall growth of gross domestic product between 1977 and 1980 turns out to be on the low side of the estimates of the overall scope of the sector. At the very least, it seems clear that the nonprofit sector continues to comprise a significant element of the national scene, even in strictly economic terms.

The Private Philanthropic Base

While maintaining, and possibly expanding, its economic position, the nonprofit sector has experienced important changes in the composition of its revenues over the past several decades or more. In particular, the sector has gone well beyond its roots in private charitable giving. As noted in table 3, private giving, which embraces contributions or grants to charitable organizations by individuals, foundations, and corporations, totaled $47.7 billion in 1980, of which $22.2 billion went to churches and other religious congregations and $25.5 billion went to the service organizations of primary interest to us here. In other words, of the $116 billion in revenues received by nonreligious, nonprofit service providers in FY 1980, only 22 percent came from private giving. Even if religious organizations were included, moreover, the private philanthropic share of total nonprofit revenues would still not exceed 35 percent. In fact, these data on private giving probably overstate the extent of private support of the annual operating budgets of nonprofit organizations because they include contributions to endowments and gifts of appreciated assets like art collections that are not available for annual operating support.

Table 3

Private Charitable Giving as a Share of Nonprofit Revenues, 1980
(Dollars in billions)

Type of Organization	Private Giving	Total Revenues	Private Giving as Percent of Total Revenues
Religious Congregations	$22.2	$ 22.2	100%
Service Providers	25.5	116.4	22%
TOTAL	$47.7	$138.6	35%

Source: Nonprofit revenues based on estimates developed from Census and IRS data. Data on private giving from Giving U.S.A., 1981 Annual Report (New York: American Association of Fund-Raising Counsel, Inc., 1981).

This limited reliance on private giving as a source of revenues is evident, moreover, in virtually all the major segments of the nonprofit sector. Although the data on private giving are not grouped exactly the same way as the overall revenue data and are somewhat overstated (because multiyear bequests and endowment contributions are included as if they were available for spending in the year in which they are made), it is still possible to shed some light on the extent of reliance on private giving by different types of nonprofit organizations if we compare our estimates of overall nonprofit revenues with the available data on private giving to different types of recipients.

What emerges from such an analysis, as reflected in table 4, is that private giving constitutes less than half of the revenues of all types of nonprofit organizations except cultural organizations. In the case of cultural organizations the data on private giving are clearly inflated by the inclusion of multiyear bequests and endowments, as well as gifts of paintings and other artwork recorded at market value but not readily available for organizational support.

Table 4

Private Giving as a Share of Nonprofit Revenues, by Type of Organization, 1980 (Dollars in billions)

Type of Organization	Total Nonprofit Revenues	Private Giving	Private Giving as a Percent of Total
Social Services	$ 13.2	$ 4.7	36%
Community Development, Civic	5.4	1.4	26%
Education/Resarch	25.2	6.7	26%
Health Care	70.0	6.4	9%
Arts/Culture	2.6	3.0[a]	a
Other[b]	--	3.4	--
TOTAL	$116.4	$25.5	22%

Sources: See table 3.

a. Excess of private giving over total annual revenues of arts organizations reflects the inclusion of endowment contributions and the value of contributed artwork in the private giving data.

b. Other private giving includes a mix of organizations involved with foreign aid and technical assistance, international activities and education, and foundation endowment.

Summary

In short, the nonprofit sector remains a sizable and important component of American social and economic life. Embodying a distinctive national commitment to private action and voluntary association, nonprofit organizations have held their own in a shifting economic climate by taking full advantage of their distinctive base of private charitable support, but also by not being bound by it. In particular, nonprofit organizations have clearly developed other sources of financial support and formed supportive links with other sectors of American society. One of these routes of evolution has been in the

direction of increased reliance on self-generated income from dues, fees, and sales. But equally important have been the relationships nonprofit organizations have established with government--relationships that are now very much under challenge. The remainder of this report will examine more closely the nature of these relationships between the nonprofit sector and government, and the impact on them of the major changes in federal policy that are now under way or under consideration.

CHAPTER 3

THE FEDERAL BUDGET AND THE NEED FOR NONPROFIT SERVICES

Federal budget decisions affect nonprofit organizations, in the first instance, because of the implications they have for the need for nonprofit services. The growth of federal activity over the past half-century or more has firmly established the federal government as a major participant in many of the same fields where nonprofits have long operated, supplementing and often complementing nonprofit agencies in promoting community objectives and serving human needs.

Because of the budget policies being pursued at the national level, this federal involvement would decline substantially, thus either leaving needs unmet or shifting more of the responsibility for addressing them to private action and private, nonprofit institutions. The latter course is, in fact, an avowed objective of the Reagan administration's budget strategy. Reflecting long-standing conservative beliefs to the effect that an inevitable conflict exists between government and voluntary institutions, this strategy seeks to aid nonprofit organizations chiefly by getting government out of their way.[1]

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1. The origins of this line of thinking lie in a large body of conservative political and social thought stretching back many decades. This theory has been articulated most forcefully in recent years by sociologist Robert Nisbet, who has decried the "decline of community" in the modern world, which he associates with the reduced hold of "intermediate associations" like the family, the church, the neighborhood, and the voluntary association, and which he attributes in large measure to the growth of government. As Nisbet puts it: "The conflict between the central power of the political state and the whole set of functions and authorities contained in church, family, gild, and local community has been, I believe, the main source of those dislocations of social structure and uprootings of status which lie behind the problem of

As President Reagan put it in a September 1981 speech, "The truth is that we've let government take away many of the things we once considered were really ours to do voluntarily...." Cutting back on government, in this view, is thus the first step toward reviving voluntary action and promoting private, nonprofit institutions.

To analyze the implications of the Reagan budget proposals for nonprofit organizations, therefore, we must begin by gauging the extent of the new responsibilities these proposals will call on the sector to bear. To do so, this chapter first examines the actual extent of federal involvement in fields where nonprofit organizations are active, then analyzes the scope of the budget changes enacted or proposed in these fields, and finally evaluates the nature of the challenge various types of nonprofit organizations face as a consequence.

Federal Activity in Fields Where Nonprofits Are Active

Nonprofit organizations are engaged in a great variety of activities, as we have seen. In fact, the classification system used by the IRS to differentiate nonprofit organizations requires 250 activity codes to capture the different types of nonprofit organizations that exist.

Despite the growth of the federal government, however, the overlap beween nonprofit and federal activities is far from complete. Direct federal support in the field of religion, for example, is constitutionally proscribed; federal political advocacy is legally prohibited; and federal involvement in fields such as culture and the arts is relatively limited. Nevertheless, there are

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community in our age.... The real conflict in modern political history has not been, as is so often stated, between state and individual, but between state and social group." Robert Nisbet, Community and Power (2nd ed.) (New York: Oxford University Press, 1962), p. 268.

at least seven fields in which both the federal government and nonprofit organizations are significantly involved: (1) social welfare, including social services, community development, and employment and training; (2) health care; (3) education and research; (4) income assistance; (5) international relief and assistance; (6) culture and the arts; and (7) conservation and the environment.

Within these fields, of course, the federal government and nonprofit organizations may do different things for different clienteles. A reduction in government activity therefore does not automatically translate into a need that the nonprofit sector could effectively or easily fill. To go from a listing of fields of mutual interest to an assessment of the impact of budget cuts on the responsibilities of nonprofit organizations, therefore, it was necessary to identify the subset of programs in each field that are really relevant to the nonprofit organizations operating in them. Programs were included only if they met one of two conditions: (1) they provided revenues to nonprofit organizations either directly or indirectly or (2) a change in their funding level could reasonably be expected to affect the demand for services from some significant set of nonprofit institutions.

Following this rule enabled us to identify the programs of particular relevance to nonprofit organizations without including every domestic program in the federal inventory. For example, programs like Aid to Families with Dependent Children (AFDC), Food Stamps, Supplemental Security Income for aged, blind, and disabled people, and other needs-tested income assistance programs were included since a reduction in their funding could be expected to translate into increased demands on nonprofit social service agencies. By contrast, the highway improvement and construction program was excluded because its funding level has limited influence on either the need for nonprofit services or the revenues of nonprofit organizations.

Using these criteria, we identified well over 100 federal programs of particular importance to the sector. As reflected in table 5, these programs accounted for almost $150 billion in outlays in FY 1980, or slightly more than one-fourth of all federal expenditures. (For further detail on the programs included in each category, see chapter 6.)

Table 5

Federal Outlays in Fields Where Nonprofits Are Active, FY 1980
(Dollars in billions)

Field Subfield	Outlays, FY 1980 Amount	Outlays, FY 1980 As a Percent of All Federal Outlays
Social Welfare	$ 28.6	5.0%
Social Services	7.4	1.3
Employment and Training	10.3	1.8
Community Development	10.8	1.9
Education/Research	22.5	3.9
Elementary and Secondary	7.0	1.2
Higher	10.8	1.9
Research	4.7	0.8
Health Care	53.7	9.3
Health Finance	49.1	8.5
Health Services	4.7	0.8
Income Assistance	35.7	6.2
Cash	14.7	2.5
Housing	5.5	1.0
Food	13.3	2.3
Other	2.2	0.4
International Aid	6.9	1.2
Arts/Culture	0.6	0.1
Conservation/Environment	0.7	0.1
TOTAL	$148.7	25.8%

Source: Outlay data from Office of Management and Budget, Budget of the United States Government, Fiscal Year 1982.

Of this amount, by far the largest share, representing a third of all federal outlays in these fields, and 9.3 percent of total federal outlays, consisted of health care expenditures, chiefly for Medicare and Medicaid. Another one-fourth of the total represented income assistance payments, while social welfare, and education and research accounted for between 15 and 20 percent of the total each.

The Impact of the Reagan Budget

In the budget proposals it unveiled in February 1981, the Reagan administration called for substantial reductions in the real value of federal involvement in many of these fields of nonprofit activity. Many of these cuts were enacted in the course of congressional consideration of the FY 1982 budget. In February 1982, the president then unveiled additional proposals for reducing the value of federal spending on these programs during FY 1983-85. These proposals are still pending before Congress at this writing.[2]

Overall Impact

As reflected in table 6 and figure 1, the budget proposals already enacted into law for FY 1982, coupled with those proposed by the president for the FY 1983-85 period, would reduce the value of federal outlays in fields where nonprofit organizations are active during FY 1982-85 by a total of $115 billion (in constant 1980 dollars) below the levels that existed in FY 1980. Expressed in the dollars of the years in which these amounts are to be spent instead of in constant 1980 dollars, this total would amount to $158.2 billion (see apperdix C, table 1). Compared with FY 1980 levels of activity, this

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2. For an analysis of initial congressional action on these proposals, see chapter 7.

represents an overall reduction of nearly 20 percent in the value of federal resources devoted to these programs over the FY 1982-85 period. By FY 1985, in fact, these activities are projected to receive 26 percent fewer resources than they received in FY 1980. Moreover, these reductions come on top of effective cuts totaling $2.3 billion (in 1980 dollars) that were enacted for FY 1981, the last budget of the Carter administration.

Table 6

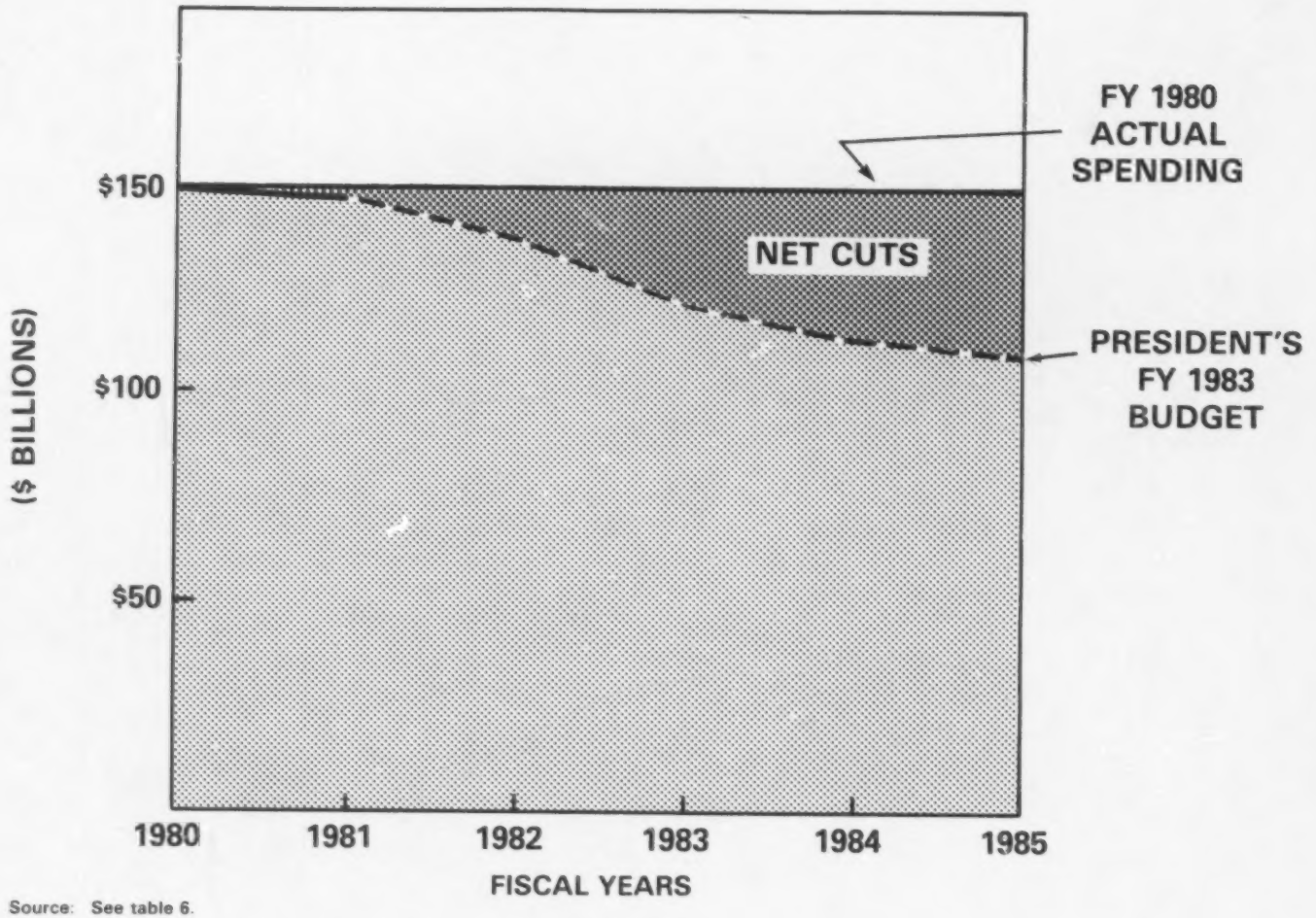
Proposed Reductions in Federal Outlays in Fields Where Nonprofit Organizations Are Active, FY 1982-85, in Constant 1980 Dollars
(Dollars in billions)

	Outlays				
	FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85
FY 1980 Spending Level	$148.7	$148.7	$148.7	$148.7	$594.9
President's FY 1983 Budget	136.2	121.1	113.2	109.4	479.9
Cuts	-$ 12.5	-$ 27.6	-$ 35.5	-$ 39.3	-$115.0
(Percent Change)	(-8.4%)	(-18.6%)	(-23.9%)	(-26.4%)	(-19.3%)

Source: FY 1982 figures represent administration estimates of congressional action on the FY 1982 budget. Figures for the FY 1983-85 period are based on the administration's budget proposals detailed in budget account data made available by the Office of Management and Budget. Out-year proposals were converted into constant 1980 dollars by applying the GNP deflator in the president's FY 1983 budget. A special deflator, based on administration estimates of growth in health care costs, was used to deflate projected out-year Medicare and Medicaid spending.

Impacts by Program Area

These proposed reductions in the value of federal activity in fields where nonprofit organizations are active are not, however, distributed evenly



Source: See table 6.

Figure 1
Proposed Spending on Programs of Interest to Nonprofit Organizations, FY 1982-85, President's FY 1983 Budget vs. Actual FY 1980 Spending, in Constant 1980 Dollars

among the various programs or fields. Rather, they hit particular areas harder than others. To understand the implications of these proposals for nonprofit organizations, therefore, it is necessary to go beyond the aggregate figures and focus on the seven separate program areas identified earlier.

Figure 2 provides a first cut at the picture that emerges from such an analysis. What it shows is that by FY 1985 the Reagan administration's budget proposals would reduce the value of federal resources devoted to programs of interest to nonprofits in the field of social welfare by 57 percent below FY 1980 levels. In the field of education and research, the drop would be 48 percent, and in the field of environmental protection it would be 94 percent. By contrast, overall outlays under this budget are projected to grow 10 percent in real-dollar terms between FY 1980 and FY 1985, and defense outlays are projected to grow 57 percent.

Table 7 details the dollar value of the changes that lie behind these percentages. Perhaps the most striking message that emerges from these data is the concentration of the proposed cuts in the field of social welfare. Of the $115-billion reduction in the value of federal support in all fields of nonprofit activity, cuts of $55.8 billion, or nearly half, are concentrated in this one area.[3] Yet this area accounted for only one-fifth of all federal outlays in these fields as of FY 1980. As detailed more fully in chapter 6, well over half the cuts in the social welfare field ($29.8 billion) result from the administration's cutbacks on employment and training programs, but a total of $26 billion represents reductions in social services and community development as well.

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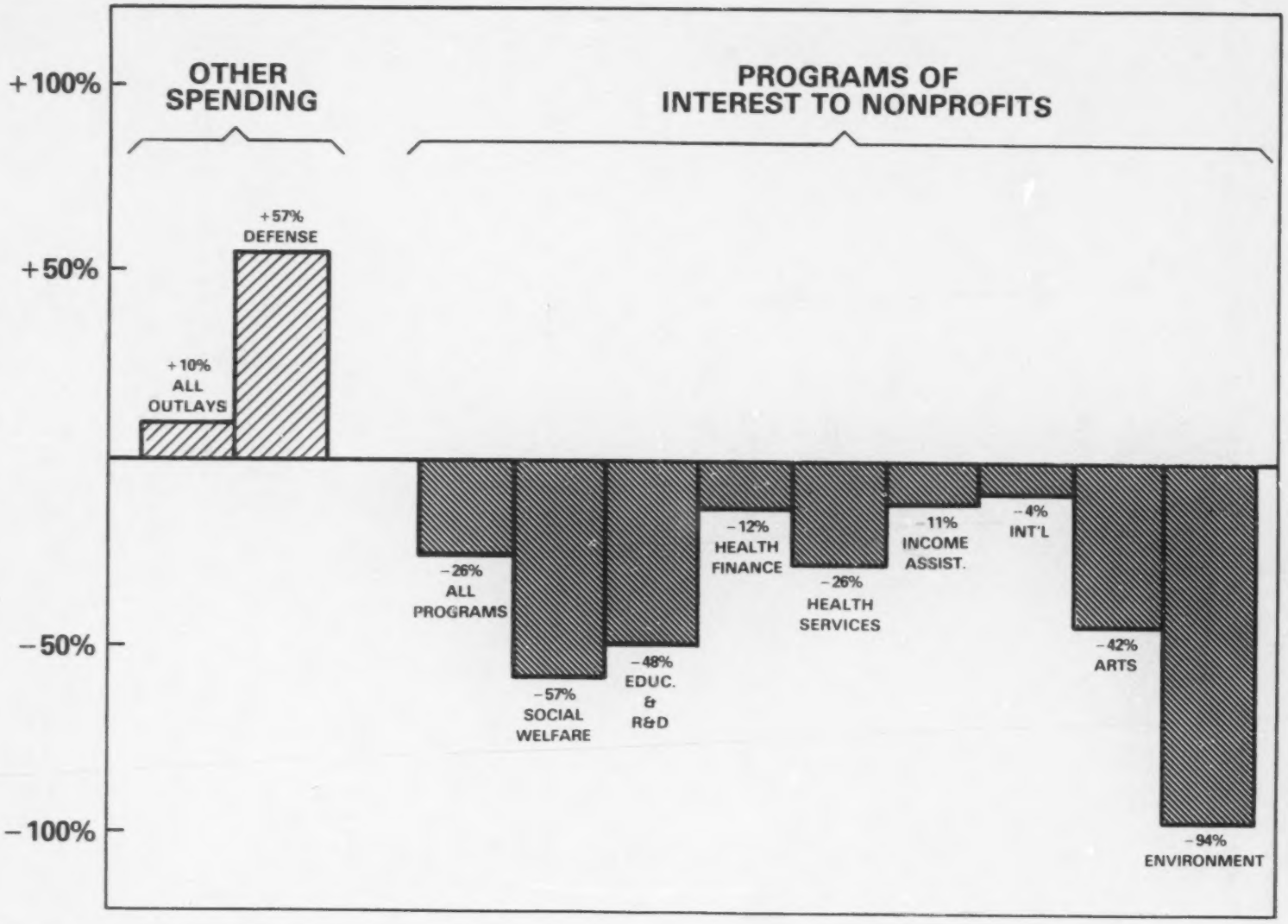
3. Expressed in current dollars instead of constant 1980 dollars, this cut in the value of social welfare spending would total $72 billion. See appendix C, table 2.



Source: See table 7.

Figure 2
Proposed Spending Changes in Programs of Interest to Nonprofits, FY 1980 vs. FY 1985, in Constant 1980 Dollars

Table 7

Proposed Changes in Federal Outlays in Nonprofit Fields of Activity, by Field, FY 1982-85, Administration Proposals vs. FY 1980 Levels, in Constant 1980 Dollars
(Dollars in billions)

Field	Actual FY 1980 Outlays	Proposed Changes from FY 1980 Levels					Percent Change, FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Social Welfare	$ 28.6	-$ 9.3	-$14.6	-$15.6	-$16.3	-$ 55.8	-57%
Education/Research	22.5	- 2.0	- 6.0	- 9.1	- 10.7	- 28.0	-48%
Health Care	53.7	- 1.7	- 4.6	- 6.3	- 7.3	- 19.9	-14%
Income Assistance	35.7	+ 0.9	- 1.7	- 3.6	- 3.8	- 8.2	-11%
International Aid	6.9	--	--	--	- 0.3	- 0.3	- 4%
Arts/Culture	0.6	- 0.1	- 0.1	- 0.2	- 0.3	- 0.7	-42%
Environment	0.7	- 0.3	- 0.5	- 0.6	- 0.7	- 2.1	-94%
TOTAL	$148.7	-$12.5	-$27.6	-$35.5	-$39.3	-$115.0	-26%

Source: See table 6.

The second-largest collection of cuts occurs in the area of education and research, where reductions of $28 billion in the value of federal assistance are projected during FY 1982-85. Of this total, almost 60 percent is targeted for higher education, reflecting, in large part, proposed reductions in federal assistance to students.

In percentage terms, the most drastic change is in the area of environmental assistance and conservation. In this area, federal involvement under the president's FY 1983 budget is projected virtually to disappear by FY 1985, at least with respect to those programs most germane to nonprofit organizations. Although not large in absolute terms, this set of proposals constitutes a particularly sharp redefinition of public and private roles.

The Implications for Nonprofit Providers

In short, the budget proposals advanced by the Reagan administration, and partly enacted by Congress, would reduce substantially the level of federal involvement in program areas where nonprofit organizations are active over the FY 1982-85 period. To be sure, not all of these reductions in federal activity will translate into demands on charitable resources and nonprofit organizations. For one thing, some portion of the cuts may represent fraud, waste, unneeded services, or unnecessary costs. For another, state and local governments may pick up all or part of the gap left by federal withdrawal. Nevertheless, it is useful to compare these proposed cuts with existing levels of nonprofit activity in order to put the proposed changes in perspective and to understand the scale of the challenge they would pose to this sector if increased state and local action were not forthcoming and if the potential savings from cutting unneeded services and reducing fraud and abuse turned out to be less than hoped.

To determine the additional resources that nonprofit organizations would require (over estimated 1980 levels) to meet the new needs created by federal budget cuts, we compared the proposed budget cuts in programs of interest to nonprofit organizations with the estimates of overall nonprofit revenues presented earlier. In the case of federal programs serving more than one type of need, we made an effort to allocate the cuts roughly in proportion to the share of program resources devoted to each program area. For example, in the CETA program as of the late 1970s, 7 percent of program resources went for support of arts activities, 27 percent for community development, 8 percent

for health care, 13 percent for education, and 45 percent for social services.[4] Accordingly, the cuts in this program had to be allocated among these program areas in the same proportions.

Based on this analysis, it becomes clear that the proposed budget cuts pose an enormous challenge to substantial segments of the nonprofit sector. For example, as table 8 shows, social service organizations would have to grow by 41 percent in FY 1982, by 92 percent in FY 1983, and by well over 100 percent in FY 1984 and FY 1985 to fill the gap left by proposed federal cutbacks in this area. This is a rate of growth that is nine to ten times greater than the administration projects for the economy as a whole during this period.

Table 8

Increased Nonprofit Activity Needed to Compensate for Federal Budget Cuts, FY 1982-85
(Dollars in billions)

Type of Organization	Total Nonprofit Revenues, 1980	Percent Increase Over 1980 Levels Required to Offset Budget Cuts			
		FY 1982	FY 1983	FY 1984	FY 1985
Social Service[a]	$ 13.2	41%	92%	106%	115%
Community Development	5.4	44%	72%	92%	91%
Education/Research	25.2	10%	26%	39%	45%
Health Care	70.0	3%	7%	9%	11%
Arts/Culture	2.6	6%	9%	13%	14%
TOTAL	$116.4	11%	24%	31%	34%

Source: Nonprofit revenue data based on IRS and Census data. Budget data from Reagan administration FY 1983 budget.

a. Includes international relief.

4. Based on data in William Mirengoff et al., The New CETA: Effect on Public Service Employment Programs (Washington, D.C.: National Academy Press, 1980), p. 95.

While the challenge is less massive in other areas, it is by no means inconsequential. Even assuming some waste and fraud in the baseline figures, the likelihood is great that nonprofit organizations will face a considerable increase in the demand--or at least the need--for their services as a consequence of the budget changes proposed or already under way.

Conclusion

The budget proposals advanced as a central part of the Reagan administration's Economic Recovery Program would greatly accelerate the reduction begun during the Carter administration in the value of federal government activity in fields where nonprofit organizations are active. These cuts are particularly severe in the areas of social welfare and environmental protection, where the federal role would be substantially reduced; but they are sizable in absolute or percentage terms as well in the fields of education and research, health care, and culture and the arts. For nonprofit organizations to fill the gap left by federal cutbacks would require an extraordinary rate of growth.

What makes this situation especially problematic, however, is that the nonprofit sector not only faces increased needs as a consequence of these budget proposals, but that it also faces significant reductions in its revenues, reductions that raise questions about its ability to maintain even its existing service levels. To understand this problem, it is necessary to examine more closely the pattern of nonprofit involvement in federal programs and the resulting impact of the proposed federal budget cuts on the revenues of nonprofit organizations.

CHAPTER 4

THE FEDERAL BUDGET AND NONPROFIT REVENUES

The notion that federal budget cuts would help the nonprofit sector by getting government out of its way is fully consistent with a body of conservative social theory that views the government and voluntary organizations as natural antagonists. In practice, however, the relationship between government and nonprofit institutions in this country is far more complex. While competing with nonprofit organizations in some areas, the federal government has also extensively underwritten their activities, encouraged their involvement in public programs, and stimulated the expansion and elaboration of their role.

Federal tax policy, for example, by exempting individual and corporate charitable contributions from taxation, effectively delivers an implicit subsidy to the sector. According to U.S. Treasury data, this subsidy was estimated to be worth $8.4 billion in FY 1980. As table 9 shows, about 12 percent of this implicit subsidy flows to the education component of the sector, about 15 percent to the health care component, and the remaining 73 percent to all other nonprofit organizations, including churches.

Similarly, nonprofit organizations benefit from special, below-cost mail rates. In FY 1981, these rates cost the Postal Service an estimated $789 million, which was made up by payments from the Treasury.

Even more important than these tax and mail subsidies, however, are the direct programmatic resources that nonprofit organizations receive as a result

Table 9

Federal Tax Subsidies to Nonprofit Organizations, FY 1980
(Dollars in billions)

Type of Organization	Total		By Source	
	Amount	As a Percent of Total	Corporations	Indiviudals
Education	$1.0	12%	$0.3	$0.7
Health	1.3	15	0.2	1.1
Other	6.1	73	0.4	5.7
TOTAL	$8.4	100%	$0.9	$7.5

Source: U.S. Office of Management and Budget, Budget of the U.S. Government, FY 1981, Special Analysis G, p. 323.

of their participation in federal programs. The growth of federal activism, it turns out, has not involved simply an expansion of the federal bureaucracy and the displacement of nonprofit providers. Rather, the federal government has turned to a host of "third parties" to help it carry out its expanded responsibilities, and nonprofit organizations have figured prominently among them.[1]

In the process, an elaborate pattern of "nonprofit federalism" has taken shape linking governments at all levels to nonprofit organizations across a broad front. Far from being an alternative to or a competitor of nonprofit organizations, the federal government has emerged as a partner of these organizations, financing nonprofit operations, encouraging nonprofit involvement in new fields, and often helping to create new types of nonprofit entities where none had existed.

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1. For further elaboration of this point, see Lester M. Salamon, "The Rise of Third-Party Government," Washington Post, June 29, 1980; and idem, "Rethinking Public Management: Third-Party Government and the Changing Forms of Public Action," Public Policy (Summer 1981).

To be sure, these arrangements are not without their strains. Nonprofit organizations complain about excessive paperwork, insufficient provision for overhead costs, and burdensome regulatory requirements. Yet few doubt that, on balance, these relationships have been quite productive, providing needed resources for nonprofit action and creating a useful amalgam of public and private capabilities.

Because of these relationships, however, the same budget reductions that place new demands on nonprofit organizations threaten to reduce the revenues that nonprofits have available to meet even existing demands. To understand the impact of the current budget proposals on nonprofit organizations, therefore, it is important to look beyond the changes that are projected in the need for nonprofit services and to examine in detail the direct implications for nonprofit revenues. To do so, this chapter is divided into three sections. The first section analyzes the origins, extent, and nature of federal support of nonprofit organizations. The second section then examines the impact on nonprofit revenues of the budget changes enacted by Congress or proposed by the Reagan administration for FY 1982-85. The final section then puts these revenue losses into context by comparing them to the existing revenues of the sector and the new needs the sector is likely to face. With this as background, the following chapter will then gauge the challenge that has consequently been posed to private charitable giving.

The Background: The Origins and Scope of Nonprofit Federalism

Contrary to current mythology, the involvement of nonprofit organizations with government is no recent development in this country. To the contrary, it is rooted deeply in American history. In fact, some of this country's premier private, nonprofit institutions--such as Harvard University, Massachusetts

General Hospital, the Metropolitan Museum of Art, Columbia University--owe their origins and early sustenance to public sector support. As Waldemar Nielsen, the foremost student of this subject, has written:

> Through most of American history government has been an active partner and financier of the Third Sector to a much greater extent than is commonly recognized.... Collaboration, not separation or antagonism, between government and the Third Sector (and the private economic sector as well) has been the predominant characteristic. Such intimate association has also, on the whole, proven to be highly productive....[2]

Although this partnership relationship between government and the nonprofit sector has deep roots in American history, it has expanded in both scope and scale in recent decades. What is more, it has taken new and more elaborate form with the emergence of the federal government as a key participant in the funding and support of nonprofit action.

Typical of these developments has been the evolution of the mixed economy of social services. Prior to the 1960s, the provision of social services was a shared responsibility of the voluntary sector and state or local governments. State activities throughout much of the nineteenth century focused on the development of institutions for the care of deaf, blind, and mentally or physically handicapped persons, while private agencies handled home care and various forms of direct assistance. As state and local involvement in the social services field expanded during the Progressive era at the turn of the century, however, it was accompanied by an increased flow of public funds to voluntary agencies to provide a broader range of services. In the process, a significant pattern of government-nonprofit partnership began to take shape to cope with the nation's social service needs.

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2. Waldemar Nielsen, The Endangered Sector (New York: Columbia University Press, 1980), pp. 14, 47.

Although the federal government entered the social welfare field in the 1930s, in the three decades that followed Washington concentrated almost exclusively on providing financial support to state and local governments to help support their cash assistance programs for orphans, disabled persons, and the needy elderly. Not until the early 1960s did the federal government become a significant provider of funds for social services. As it did so, however, it made specific provision, through the 1962 amendments to the Social Security Act and even more so in the 1967 amendments, for state agencies to enlist nonprofit organizations in the actual delivery of the services.[3] By 1971, in fact, purchases from nonprofit providers constituted about 25 percent of the expenditures under the various social service programs that in 1972 were folded into the federal social services block grant program (Title XX). This pattern of contracting out has, moreover, increased even further in recent years.[4]

Federal support for nonprofit organizations has evolved similarly in other fields as well--in health care, education, research, neighborhood development, and the arts. In some areas, in fact, federal support has led to the creation of whole new classes of nonprofit organizations to provide a range of services that existing institutions were not equipped to handle and that the federal government did not want to handle on its own. In this way,

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3. Specific provisions for state contracting out to nonprofit organizations were included in the original proposals advanced for federal social service funding by the Kennedy administration in 1962, but the provisions had to be abandoned when religious groups expressed concern about constitutional prohibitions against federal support of religiously affiliated social service agencies. These objections were dropped in 1967 and the provisions added.

4. Bill Benton et al., Social Services: Federal Legislation vs. State Implementation (Washington, D.C.: The Urban Institute, October 1978); U.S. Department of Health and Human Services, Social Services U.S.A. (Washington, D.C.: U.S. Government Printing Office, 1981).

the federal government has significantly extended the structure of the nonprofit sector. Typical of these developments was the stimulus the federal government gave to the creation of a network of community health clinics in poverty areas throughout the country. Funded originally out of "poverty program" resources, almost 900 such centers existed as of 1980. Other examples of the same kind include the creation of a network of multicounty Economic Development Districts to stimulate economic development in distressed areas, the formation of community action agencies and Head Start programs for disadvantaged children, and the formation of metropolitan councils of government (COGs) to encourage regional planning in metropolitan areas.

Through these and other channels, an elaborate system of federal support for nonprofit organizations has taken shape in this country. Broadly speaking, this support flows along three main routes, though it takes a variety of different forms. As reflected in figure 3, one of these routes involves direct financial relationships between the federal government and nonprofit organizations. An example would be a federal research grant to a private medical school. The second route involves federal grants to state and local governments, which then contract out to nonprofit providers or others to deliver a particular service. The classic example here is the Title XX social services program, which channels federal assistance to the states and leaves to the states the option of providing the services themselves, contracting with other levels of government, or contracting with for-profit and nonprofit providers. Finally, the third route involves federal in-kind assistance to individuals, who then are free to purchase services from nonprofit institutions. This is the route followed in the college student assistance programs and in Medicare.

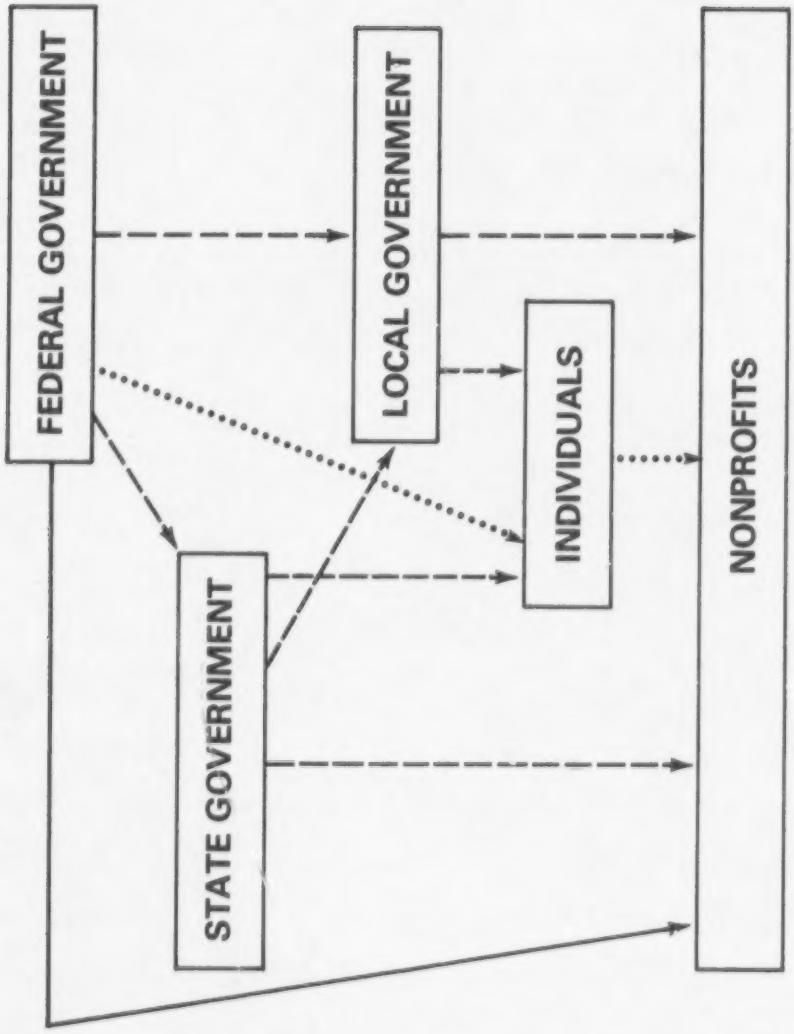

Figure 3
Channels of Public Funding of Nonprofit Organizations

Given the complexity of this system of support, it is no wonder that reliable data on the full extent of federal support flowing to nonprofit organizations has not been available. No comprehensive statistical compilations are assembled on this subject anywhere in the federal government. Nor does reliable information exist for many individual programs. As a consequence, policymakers have had to operate very much in the dark with respect to the effects of budget decisions on this important sector of national life.

To remedy this situation, we developed estimates of the share of program resources flowing to nonprofit organizations under each of the federal programs identified above as being relevant to the nonprofit sector. These estimates were based on detailed examination of programmatic data, scrutiny of existing program evaluations, and extensive discussions with program managers.[5]

Drawing on this analysis, we found that federal support to the nonprofit sector in FY 1980, exclusive of tax subsidies and postal subsidies, amounted to more than $40 billion, as noted in table 10. Given the size of the sector discussed earlier, this means that the federal government accounts for about 35 percent of the sector's total revenues. By comparison, as we have seen, private charitable contributions to nonprofit service providers from individuals, corporations, and foundations combined totaled $25.5 billion that same year. In other words, nonprofit organizations other than churches now derive a larger share of their revenues from the federal government than from all of private giving combined.[6]

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5. For a more detailed discussion of the estimating procedure, see Lester M. Salamon with Alan J. Abramson, The Federal Government and the Nonprofit Sector: Implications of the Reagan Budget Proposals (Washington, D.C: The Urban Institute, May 1981), pp. 35-38.

6. This finding is consistent with the estimates developed by the Commission on Private Philanthropy and Public Needs (the Filer Commission) in

Table 10

Nonprofit Revenues from Federal Sources, FY 1980
(Dollars in billions)

Type of Organization	Revenues from Federal Sources	
	Amount	As a Percent of Total
Social Service	$ 6.5	16%
Community Development	2.3	6
Education/Research	5.6	14
Health Care	24.9	61
Foreign Aid	0.8	2
Arts/Culture	0.3	1
TOTAL	$40.4	100%

Source: Application of authors' nonprofit share estimates to actual FY 1980 outlay data in Budget of the U.S. Government, FY 1982.

As table 10 shows, more than 60 percent of this federal support to nonprofit organizations flows to health care organizations, most of it through the Medicare and Medicaid programs. However, social service and education and research institutions also receive substantial shares. In fact, as shown in table 11, nonprofit social service organizations received over half their total revenues from federal sources in FY 1980. Other types of nonprofit organizations were somewhat less dependent on federal sources of support, but for virtually all types, this support is a significant component of overall revenues, typically outdistancing private giving by a substantial margin.[7] Under

1977. According to these estimates, all public support to the nonprofit sector (including state and local as well as federal government support) totaled $23.1 billion in 1974, compared with a total of $13.6 billion in private giving to nonprofits excluding churches and other religious organizations. Gabriel Rudney, "The Scope of the Private Voluntary Charitable Sector," Research Papers Sponsored by the Commission on Private Philanthropy and Public Needs (Washington, D.C.: U.S. Department of the Treasury, 1977) pp. 135-142.

7. Private giving appears to outdistance federal support only for educational and cultural organizations, but in both these cases the private giving figure is swelled by the inclusion of the full value of bequests and

these circumstances, nonprofit organizations have far more than a casual stake in federal budget decisions. These decisions are now one of the major determinants of the fiscal health of the sector, and of the viability of several of its components.

Table 11

Nonprofit Revenues from Federal Sources Compared to Private Giving and Total Nonprofit Revenues, by Type of Organization, FY 1980 (Dollars in billions)

Type of Organization	Total Revenue	Source of Revenue: Private Giving[a]	Source of Revenue: Federal Programs	Federal Programs as a Percent of Total Revenues
Social Service[b]	$ 13.2	$ 4.7	$ 7.3	58%
Community Development[c]	5.4	1.4	2.3	43%
Education/Research	25.2	6.7	5.6	22%
Health Care	70.0	6.4	24.9	36%
Arts/Culture	2.6	3.0[a]	0.3	12%
Other		3.4	--	
TOTAL	$116.4	$25.5	$40.4	35%

Source: Total revenues based on estimates developed from IRS and Census data. Private giving from Giving U.S.A. Government support is based on authors' estimates.

a. Includes endowment income and contributions of appreciated assets like works of art.
b. Includes international assistance.
c. Includes civic associations and other.

As important as the overall size and distribution of federal support to nonprofit organizations is the route that this support takes. As noted earlier, three such routes are identifiable, one involving direct dealings between the federal government and nonprofit organizations, the second involving indirect relationships through state and local governments, and the

appreciated assets in the year in which they are given even though they are not available for use.

third involving indirect relationships through payments to individuals (e.g., for health care or college tuition).

Of these three, as noted in table 12, the most extensively used is the one involving federal payments to individuals under programs like Medicare and student assistance. This route accounted for 53 percent of all nonprofit revenues from federal sources in FY 1980. By comparison, 27 percent of nonprofit revenues from federal sources flowed through state and local governments, and only 20 percent reached nonprofits directly from federal agencies. In other words, well before the advent of "new federalism" and the contraction of federal activity, most of the nonprofit sector's dealings with the federal government were already indirect.

Table 12

Federal Government Support of Nonprofit Organizations, FY 1980, by Avenue of Assistance (Dollars in billions)

Avenue of Federal Assistance	Nonprofit Revenue from Federal Sources	
	Amount	As a Percent of Total
Direct to Nonprofits	$ 7.9	20%
Through State/Local Governments	10.9	27
Through Individuals	21.6	53
TOTAL	$40.4	100%

Source: Authors' analysis of FY 1980 outlay data in Budget of the U.S. Government, FY 1982.

In short, an immense and complex set of partnership arrangements has developed between the federal government and nonprofit organizations. These arrangements have deep roots in American history. Most of them operate indirectly, through state and local governments and individual purchasers of services. Taken together, however, they account for a substantial share of

nonprofit revenues, especially for social service and community development organizations. Indeed, in dollar terms, they represent a larger share of nonprofit revenues than all of private giving combined. While the relationships that lie behind these figures have not been without their strains, they also have had much to recommend them. They have offered an innovative way to combine the revenue-raising potentials of the federal government with the service-providing capabilities of private, voluntary agencies. As such, they represent an important American contribution to the practice of government and the delivery of human services.

The Impact of the Reagan Budget on Nonprofit Revenues

The budget and program changes proposed by the Reagan administration pose an immense challenge to this set of partnership arrangements. This challenge is substantial in overall terms, but it is even more significant in particular substantive areas.

Overall Effects

Under the budget measures already enacted for FY 1982 or proposed by the administration for FY 1983-85, nonprofit revenues from federal sources over the FY 1982-85 period would decline by a total of $33 billion (in constant 1980 dollars) below the levels that existed in FY 1980.[8] As reflected in figure 4, this represents a reduction of 20 percent in the value of federal support over this period. Put somewhat differently, if these proposals were enacted, nonprofit revenues from federal sources would be 27 percent lower in FY 1985 than they were in FY 1980, as table 13 shows.

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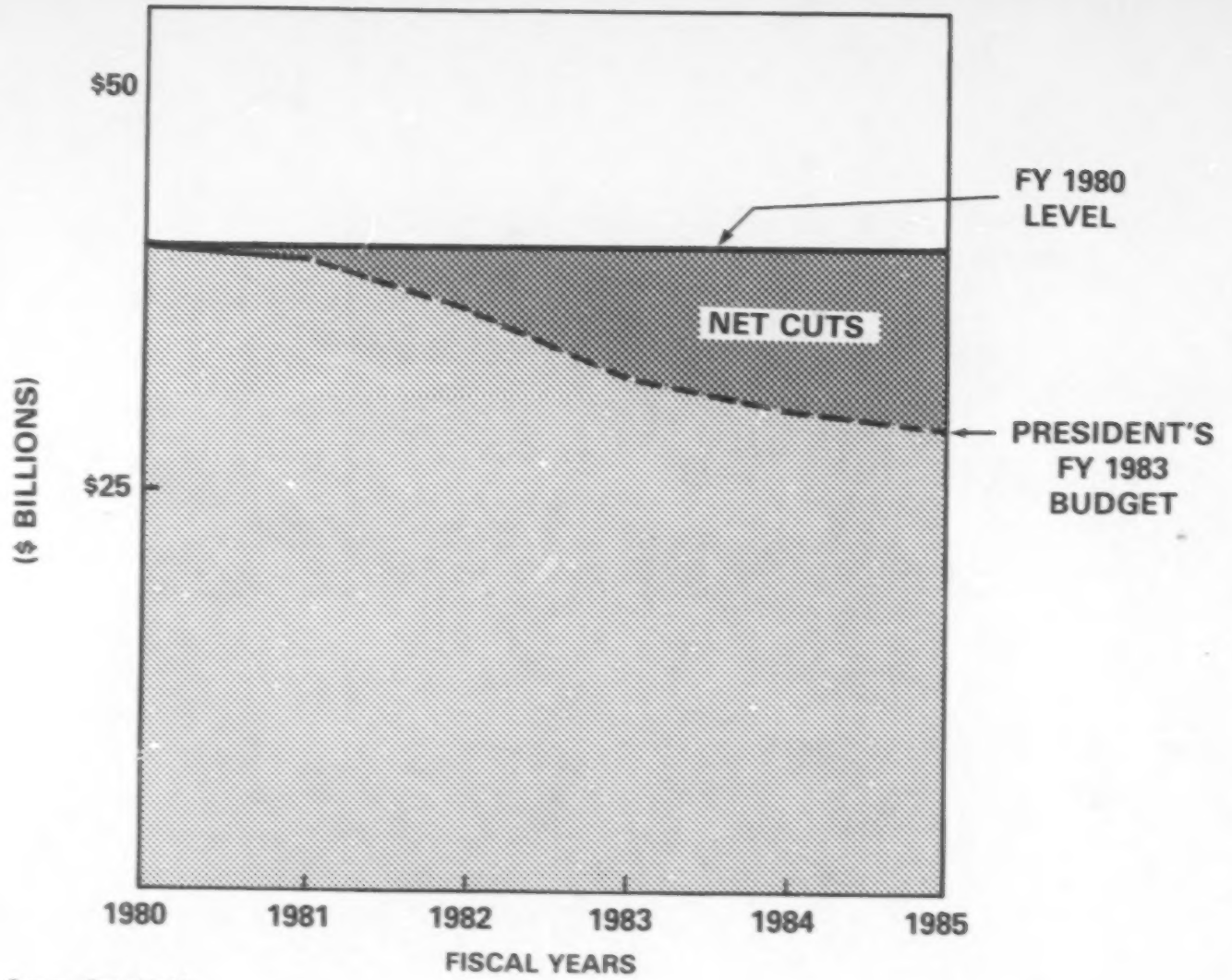
8. If this figure were expressed in current dollars (i.e., in the dollars of the years in which they are to be spent), it would equal $46.2 billion (see table C-3).



Source: See table 13.

Figure 4
Projected Nonprofit Revenues from Federal Sources, FY 1982-85, President's FY 1983 Budget vs. Actual FY 1980 Levels, in Constant 1980 Dollars

Table 13

Projected Nonprofit Revenues from Federal Sources, FY 1982-85, President's Budget vs. Actual FY 1980 Levels, in Constant 1980 Dollars (Dollars in billions)

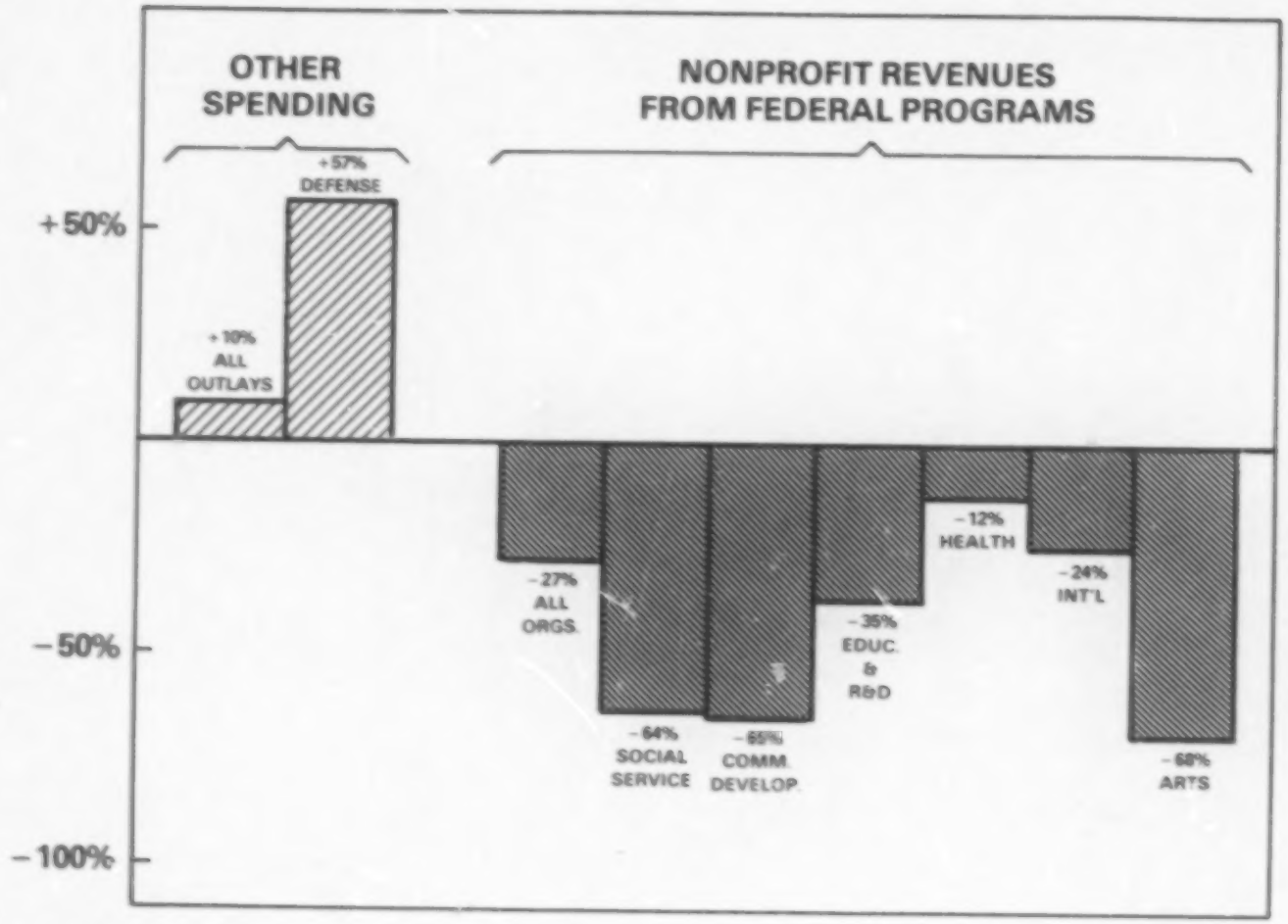
	FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85
Actual 1980 Level	$40.4	$40.4	$40.4	$40.4	$161.5
President's Budget	36.5	32.3	30.3	29.3	128.5
Change	-$ 3.8	-$ 8.0	-$10.1	-$11.0	-$ 33.0
Percent Change	(-10%)	(-20%)	(-25%)	(-27%)	(-20%)

Source: Application of authors' nonprofit share estimates to president's budget proposals from Budget of the U.S. Government, FY 1983, adjusted for inflation using the administration's economic assumptions.

Effects by Type of Organization

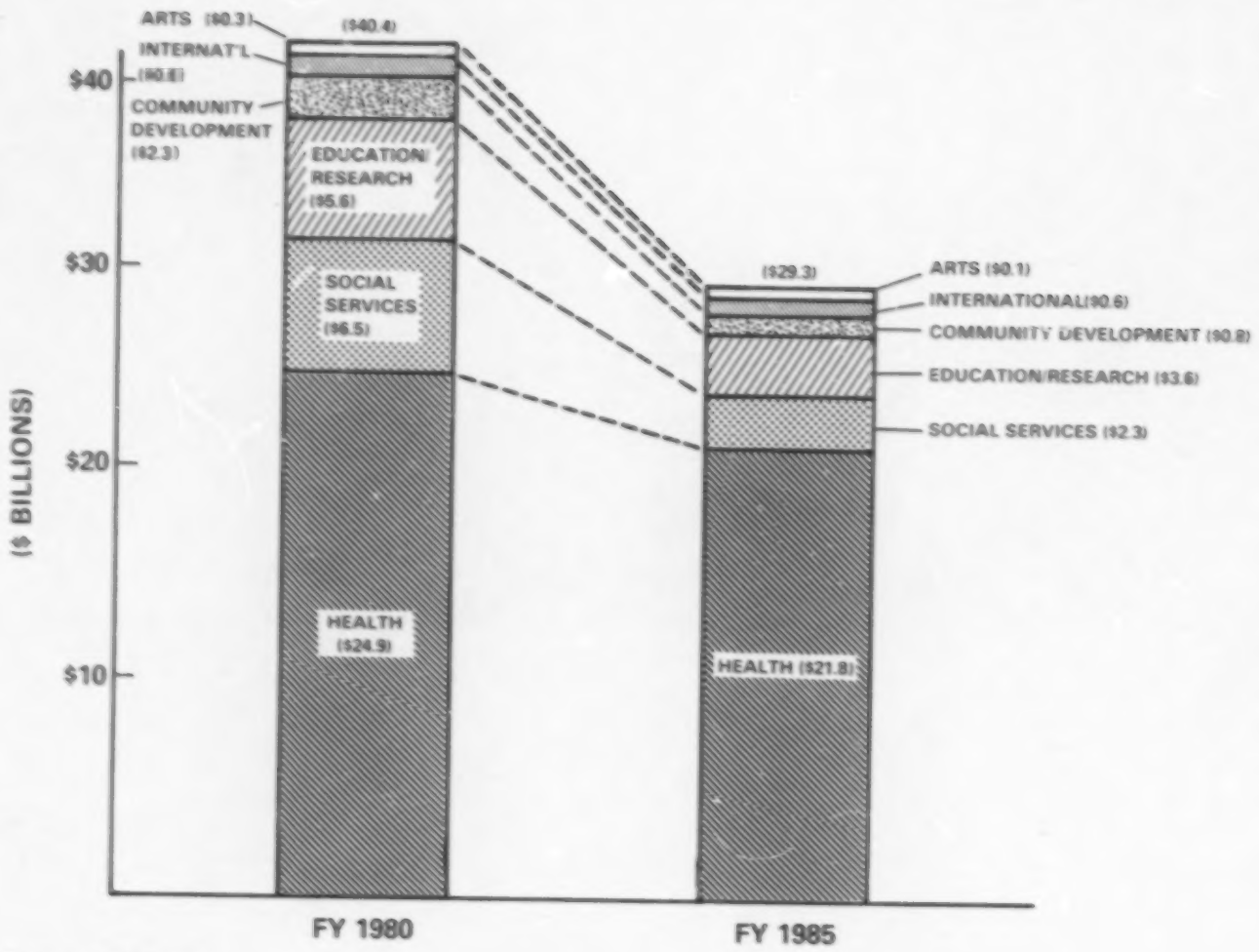
These potential effects of the president's budget proposals on the revenues of nonprofit organizations are not spread evenly among all segments of the nonprofit sector. Rather, social service, community development, and arts organizations will be particularly hard hit. As figure 5 shows, federal support to these types of organizations will decline by more than 60 percent between FY 1980 and FY 1985. If these proposals are enacted, the existing partnership arrangements between the federal government and these types of organizations would thus be substantially dismantled by FY 1985, as figure 6 makes clear.

This concentration of the effects of federal budget cuts on particular classes of nonprofit organizations is even more clearly evident in table 14.



Source: See table 14.

Figure 5
Proposed Changes in Nonprofit Revenues from Federal Sources, FY 1980 vs. Proposed FY 1985, by Type of Organization, in Constant 1980 Dollars



Source: See table 14.

Figure 6
Nonprofit Revenues from Federal Sources, FY 1980 vs. FY 1985, in Constant 1980 Dollars

Table 14

Proposed Changes in Nonprofit Revenues from Federal Sources, FY 1982-85, President's Budget vs. 1980 Actual Receipts, by Type of Nonprofit Organization, in Constant 1980 Dollars (Dollars in billions)

Type of Organization	Federal Support in FY 1980	Proposed Changes from FY 1980 Level FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	Percent Change FY 1985 vs. FY 1980
Social Service	$ 6.5	-$1.9	-$3.7	-$ 3.9	-$ 4.1	-$13.6	-64%
Community Development	2.3	- 0.6	- 1.2	- 1.6	- 1.5	- 4.9	-65%
Education/Research	5.6	- 0.4	- 1.1	- 1.7	- 2.0	- 5.2	-35%
Health Care	24.9	- 0.7	- 1.8	- 2.5	- 3.1	- 8.1	-12%
International	0.8	- 0.1	- 0.1	- 0.2	- 0.2	- 0.5	-24%
Arts	0.3	- 0.1	- 0.2	- 0.2	- 0.2	- 0.8	-68%
TOTAL	$40.4	-$3.8	-$8.0	-$10.1	-$11.0	-$33.0	-27%

Source: See table 13.

What this table makes clear is that social service organizations will take $13.6 billion of the projected $33 billion reduction in the value of nonprofit revenues from federal sources over the FY 1982-85 period. Thus these organizations, which received only 16 percent of all nonprofit revenues from federal sources in FY 1980, as table 10 showed, are projected to absorb more than 40 percent of the proposed cuts. Similarly, community development and environmental improvement organizations, which received only 6 percent of all nonprofit revenues from the federal government in FY 1980, will absorb almost $5 billion of the $33 billion in revenue reductions, or 15 percent of the total. By contrast, health care organizations, which received 61 percent of all federal support in FY 1980, will absorb $8 billion in cuts, or only about 25 percent of the total reductions in nonprofit revenues from federal sources.

As a consequence of these changes, the composition of federal support to the nonprofit sector will shift even further in the direction of health care organizations. By FY 1985 under these proposals, health care organizations will capture 75 percent of all federal support to nonprofit organizations, compared with 51 percent in FY 1980.

Changing Forms of Assistance

This reduction in federal support for nonprofit organizations is particularly severe, moreover, in those programs where federal funds reach nonprofit organizations directly from federal agencies, or indirectly through state and local governments. As reflected in table 15, federal support of nonprofit organizations through either of these two routes is projected to decline by 46 percent between FY 1980 and FY 1985 under the president's FY 1983 budget proposals. By contrast, the federal resources reaching nonprofit organizations via federal payments to individuals are slated to decline by only 11 percent.

Table 15

Projected Nonprofit Revenues from Federal Sources, by Form of Assistance, FY 1980 vs. FY 1985, in Constant 1980 Dollars (Dollars in billions)

Method of Assistance	FY 1980	FY 1985	Percent Change, FY 1985 vs. FY 1980
Direct to Nonprofits	$ 7.9	$ 4.9	-46%
Through State and Local Governments	10.9	5.9	-46%
Through Individuals	21.6	19.1	-11%
TOTAL	$40.4	$29.3	-27%

Source: Authors' analysis of outlay data in Budget of the U.S. Government, FY 1982 and Budget, FY 1983.

This pattern of changes reflects, in the first instance, the general reduction in the level of federal support for state and local governments that is

a central part of this administration's program. But it also seems to reflect a particular hostility to programs that place the federal government in the position of encouraging the creation or sustenance of new types of nonprofit entities. Such programs, which tend to involve direct dealings between the federal government and nonprofit organizations, have been among the hardest hit by the proposed budget cuts, as chapter 6 will detail more fully. As a result, the proposed changes seem likely to affect not only the overall level of federal support available to nonprofit organizations but also the basic structure and composition of the sector. At the very least, the federal role as an active promoter of diversity and expansion of the nonprofit sector would be severely circumscribed.

Summary

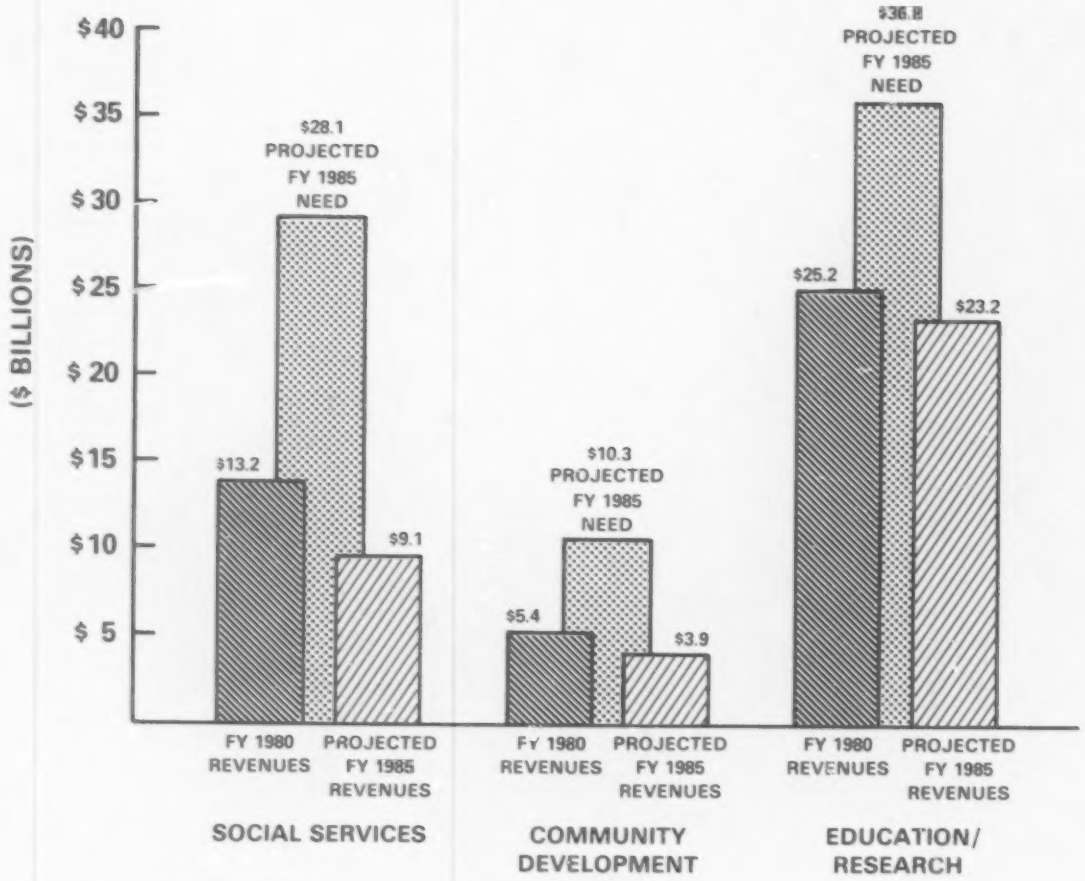
In short, the administration's FY 1983 budget would substantially reduce the value of federal support to the nonprofit sector. This reduction is heavily concentrated on social service and community development organizations, where federal support is slated to drop sharply. What is more, these proposals would shift the pattern of federal support even more heavily away from forms of assistance that go directly to nonprofit organizations toward those that operate through individuals. In all of these ways, the proposed budget would expose the nonprofit sector to significant fiscal strains.

The Implications for Nonprofit Organizations

To assess how significant these strains would really be, however, it is necessary to compare the proposed cuts with the overall revenues of the affected organizations. This is so because a given change in federal support can have a greater or lesser impact depending on the extent to which a given class of organizations relies on federal revenues for its operations.

Table 16 reports the results of such an analysis. It shows that the organizations for which federal support has been most significant prove to be the ones targeted for the greatest reductions in support under the administration's budget proposals. As a result, the effect of these cuts on the operation of these agencies is likely to be substantial. In the case of nonprofit social service agencies, for example, the scheduled losses in federal revenues translate into reductions that average between one-fourth and one-third of the total revenues of these organizations. Community development organizations also will be hard hit, losing 20 to 30 percent of their total revenues. In fact, the data in table 16 probably understate the impact of the budget cuts on this class of organizations because community development organizations are grouped here with a variety of social and civic organizations that are far less deeply involved in federal programs.

Complicating this situation further is the fact that many of the organizations that will lose the largest shares of their revenues through federal cutbacks also face the greatest increases in the need for their services as a consequence of the overall budget reductions. This situation is depicted graphically in figure 7, which shows the total revenues available to certain types of nonprofit organizations in FY 1980, the increase in revenues that would be needed in FY 1985 for these organizations to offset federal cutbacks in these fields, and the actual revenues these organizations will have left in FY 1985 given the proposed reductions in federal support. Social service organizations, for example, would need an additional $15 billion in resources in FY 1985 over what they had available in FY 1980 to fill the gap left by the cutbacks in federal assistance in this field. Because of the effect of these cutbacks on the revenues of these agencies, however, they are projected to



Source: See tables 8 and 16.

Figure 7
The Need for Selected Nonprofit Services vs. the Projected Revenues of Nonprofit Organizations, FY 1980 vs. FY 1985, in Constant 1980 Dollars

Table 16

Proposed Reductions in Nonprofit Revenues from Federal Sources in Relation to Total Nonprofit Revenues, FY 1982-85 vs. FY 1980, by Type of Nonprofit Organization, in Constant 1980 Dollars (Dollars in billions)

Type of Organization	Total Nonprofit Revenues 1980	Federal Revenue Losses as a Percent of Total Nonprofit Revenues				
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85
Social Service[a]	$ 13.2	-15%	-30%	-31%	-33%	-27%
Community Development[b]	5.4	-11%	-22%	-30%	-28%	-23%
Education/Research	25.2	- 2%	- 4%	- 7%	- 8%	- 5%
Health Care	70.0	- 1%	- 3%	- 4%	- 4%	- 3%
Arts/Culture	2.6	- 4%	- 8%	- 8%	- 8%	- 8%
TOTAL	$116.4	- 3%	- 7%	- 9%	- 9%	- 7%

Source: See tables 4 and 13.

a. Includes international relief.
b. Includes civic, social, and advocacy organizations.

lose $4.1 billion in resources instead. Similar dilemmas face other types of nonprofit organizations as well.

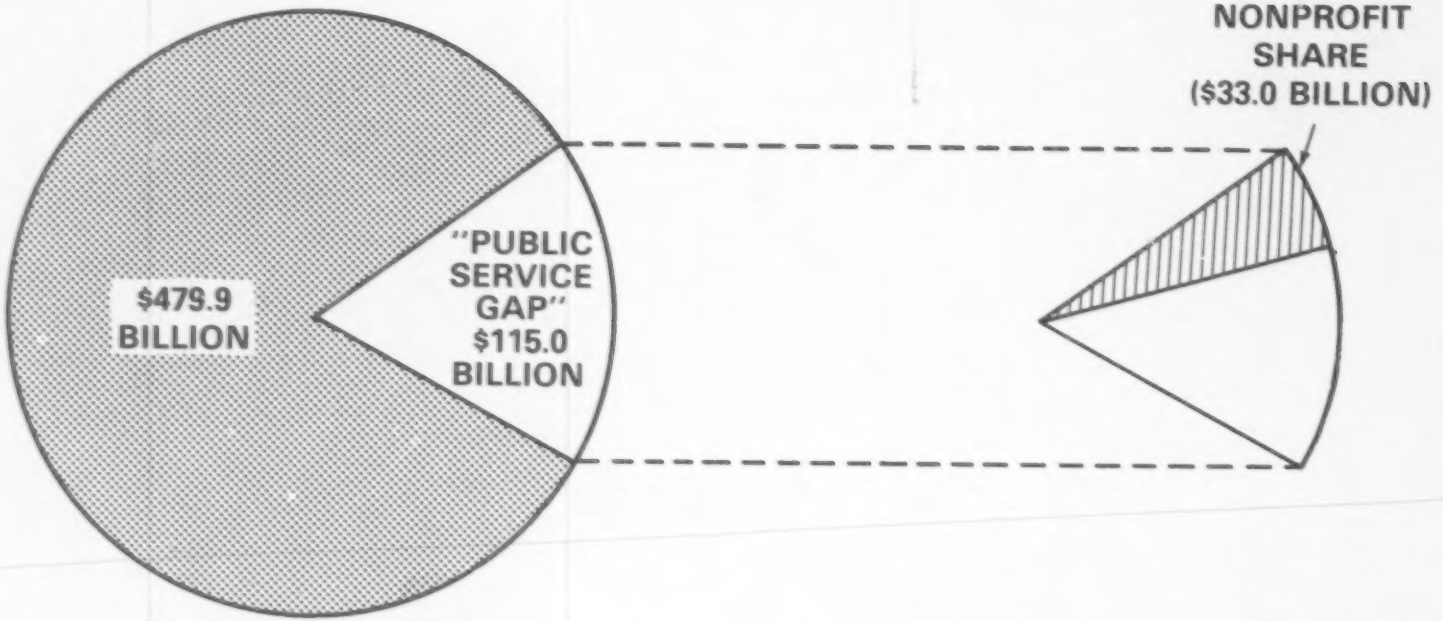
Despite its avowed intention to increase the role of private institutions, including private, voluntary organizations, the Reagan Economic Recovery Program thus paradoxically threatens to place these organizations further in the hole and widen the service gap that results. Under these circumstances it becomes especially important to know what resources are available to take up the slack. The next chapter addresses this question.

CHAPTER 5

THE CHALLENGE TO PRIVATE GIVING

As part of an Economic Recovery Program designed to curtail inflation and reduce government spending, the Reagan administration has advanced a series of budget proposals that, if fully adopted, would, as shown in figure 8, reduce federal outlays over the FY 1982-85 period by $115 billion (in constant 1980 dollars) below FY 1980 levels in fields where nonprofit organizations are active. While thus opening tremendous opportunities for increased nonprofit activity, however, these proposals also seem likely to cut $33 billion from the revenues of these same organizations, thus limiting their ability to take advantage of these new opportunities. In the face of these realities, what are the prospects that private charitable giving can "fill the gap" that results--either the overall gap in services or the direct revenue losses that will be experienced by nonprofit organizations?

This chapter attempts to get beyond the rhetoric that frequently surrounds this question by comparing the budget changes identified above to what is known about actual levels of private giving for other than religious purposes. Nothing in this chapter assumes, of course, that private giving should, or will, really compensate for federal budget cuts. Nevertheless an assessment of what it would take for private philanthropy to fill the gap produced by federal budget cuts in fields where nonprofit organizations are active can help to put these cuts into better perspective and illustrate the challenge that nonprofit organizations face as a consequence.



**TOTAL OUTLAYS, FY 1982-85
AT 1980 LEVELS: $594.9 BILLION**

PROPOSED CUTS: $115.0 BILLION

Source: See tables 6 and 13.

Figure 8
Federal Outlays for Selected Public Services, FY 1982-85, Actual FY 1980 Levels vs. President's FY 1983 Budget Proposals, in Constant 1980 Dollars

In particular, this chapter explores two separate, but related, questions: First, how large an increase in private giving would be needed to offset the overall reductions in federal spending in fields of interest to nonprofit organizations? In other words, how large an increase would be needed to fill in the entire $115 billion gap portrayed in figure 8. Second, how large an increase in private giving would be needed just to keep nonprofit revenues at the levels they had achieved in 1980? In other words, how large an increase would be needed to fill in just the $33-billion sliver of the pie shown in figure 8?

In both cases, the starting point for this analysis is the level of private giving that existed in 1981, before the changes that are of concern to us here got under way. As we have seen, the available data on such giving include bequests, endowment giving, and gifts of appreciated assets like art works that are not really available to defray the costs of service provision in the year in which the gift is given. The results here therefore probably overstate the existing levels of private support for regular nonprofit operations and hence understate the actual increase in such private giving that would be needed to compensate for government budget cuts in these areas.

Private Giving and the Need for Nonprofit Services

Private giving for other than sacramental religious purposes totaled $28.8 billion in 1981. To keep pace with inflation for the services that private giving was already supporting, private giving would have to increase 7.9 percent--under the administration's economic assumptions--between 1981 and 1982. In addition, however, as noted in table 17, the administration's budget cuts in FY 1982 will reduce federal support for programs in fields where nonprofit organizations are active by $15.1 billion (in 1982 dollars), below 1980

levels. To offset this reduction, private giving in 1982 would have to grow by an additional 52 percent. To keep pace with inflation for those things it is already supporting and permit nonprofit organizations to offset the reductions in federal support in fields where nonprofit organizations are active, therefore, private giving in 1982 would have to increase by almost 60 percent--approximately five times as fast as it did in 1981, its peak growth year during the past several decades.

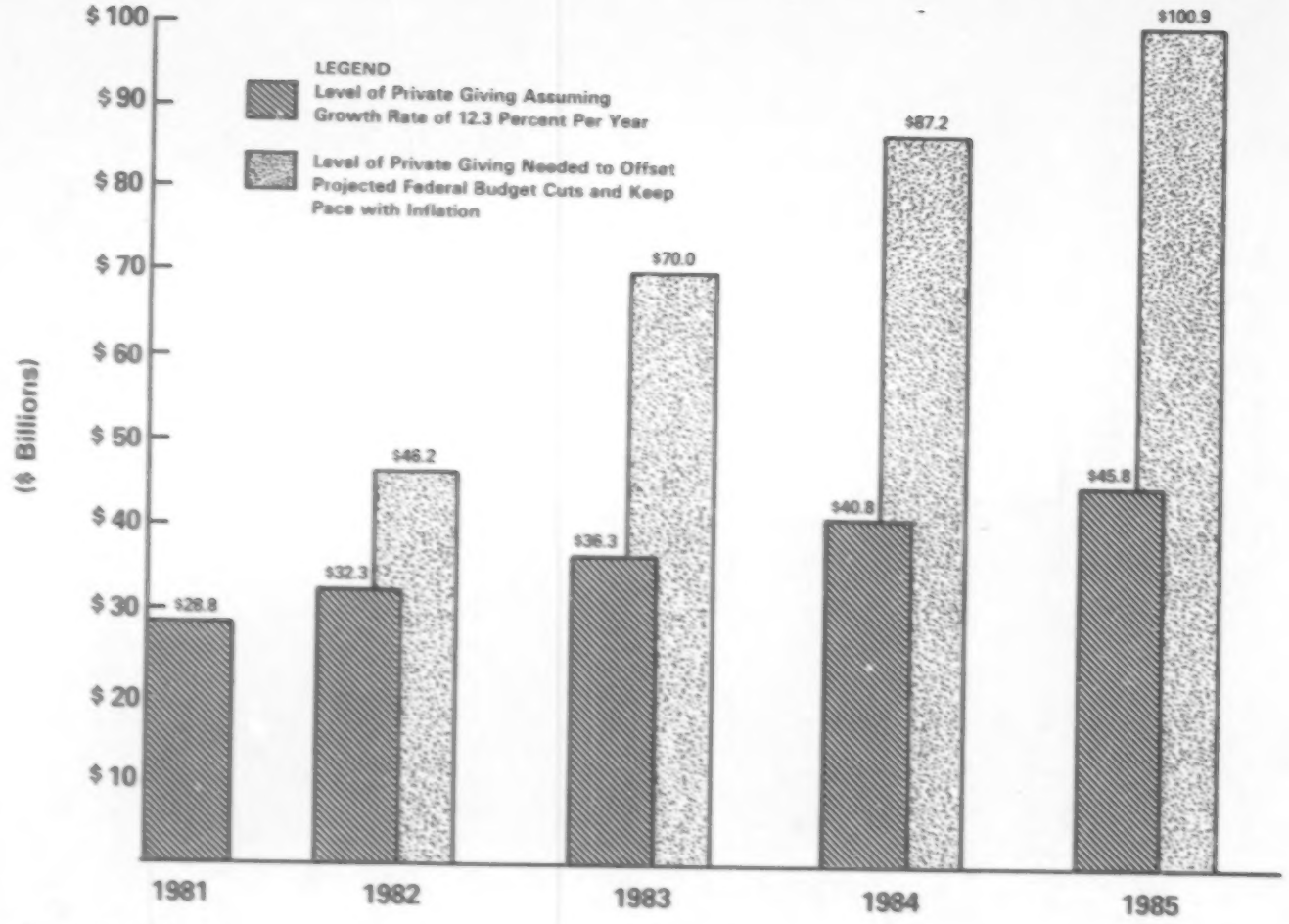
Table 17

Increase in Private Giving Needed to Offset Proposed Federal Budget Cuts in Nonprofit Fields of Activity, FY 1982
(Dollars in billions)

(1) Private Giving, 1981 (exclud. religion)	(2) Percent Change in Private Giving Needed to Keep Pace with Inflation	(3) Proposed Federal Budget Cuts in FY 1982	(4) Percent Change in Private Giving Needed to Offset Federal Budget Cuts, FY 1982	(5) Total Percent Increase in Private Giving Needed in 1982 (2)+(4)
$28.8	7.9%	$15.1	52%	59.9%

Source: Private giving figures from Giving U.S.A, 1982 Annual Report.

Because the cuts proposed in the administration's budget are projected to deepen over time, the rate of growth of private giving needed to offset inflation and compensate for the budget cuts is greater in subsequent years, even assuming a declining inflation rate. As reflected in table 18 and figure 9, this growth rate would have to equal 117 percent in 1983, 140 percent in 1984, and 147 percent in 1985. This represents a growth rate of private giving that is anywhere from ten to twelve times greater than its historic



Source: See table 18.

Figure 9
Increase in Private Giving Needed to Offset Projected Federal Budget Cuts and Keep Pace with Inflation in Nonprofit Fields of Activity, 1982-85, in Current Dollars

peak. Few knowledgeable observers anticipate anything approaching this rate of growth in the foreseeable future, even if major changes occur in public attitudes toward charity as a consequence of the new realities created by federal budget cuts. Indeed, it is questionable whether private giving could achieve the 30 to 40 percent growth rates needed to close even a quarter to a third of the gap left by federal cuts in these areas.

Table 18

Change in Private Giving Needed to Offset Projected Federal Budget Cuts in Nonprofit Fields of Activity, in Current Dollars
(Dollars in billions)

Year	Private Giving in Prior Year[a]	Inflation Rate[b]	Estimated Cuts	Percent Change in Private Giving Needed to Keep Pace with Inflation and Offset Budget Cuts
1982	$28.8	7.9%	-$15.1	60%
1983	$32.3	6.0%	-$35.8	117%
1984	$36.3	5.0%	-$49.1	140%
1985	$40.8	4.7%	-$58.2	147%

Source: Data on private giving are based on 1981 giving information in Giving U.S.A., 1982 Annual Report; inflation rates are from Budget, FY 1983; and estimated cuts are based on current dollar estimates of the cuts proposed in Budget, FY 1983.

a. Assumes giving will actually grow at peak 1981 rate of 12.3 percent.
b. Based on the administration's economic assumptions.

Private Giving and the Revenues of Nonprofit Organizations

If private giving is not likely to grow rapidly enough to enable nonprofit organizations to fill a substantial share of the gap left by federal budget cuts in fields where nonprofits are active, is it at least possible that such giving will grow fast enough to permit these organizations to make up for the direct revenue losses they will experience as a result of these cuts and thus to maintain their FY 1980 levels of activity?

To answer this question, the analysis just described was replicated, focusing this time only on the projected cuts in nonprofit revenues from federal sources, the sliver of the slice of the pie portrayed in figure 8. The conclusion that emerges, as reflected in table 19 and figure 10, is that the challenge to private philanthropy even to maintain the FY 1980 levels of nonprofit activity, let alone to extend them to allow nonprofit assumption of new responsibilities, is immense. To allow nonprofit organizations to keep pace with inflation for those things private giving is already supporting and make up for the losses they will experience in government revenues as well, private giving would have to increase 24 percent in FY 1982, 38.5 percent in FY 1983, 44 percent in FY 1984, and 46 percent in FY 1985. In other words, the growth rate for private giving would have to be three to four times higher than the highest rate it has achieved in recent decades.

Table 19

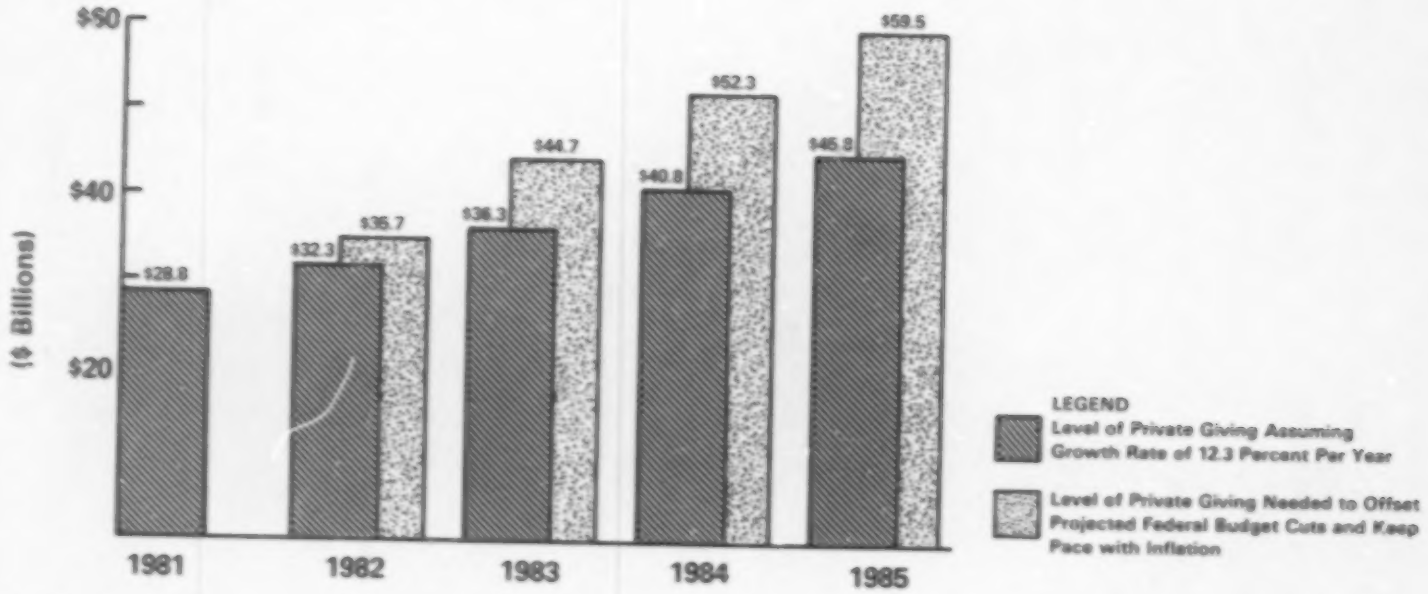
Change in Private Giving Needed to Offset the Effect of Federal Budget Cuts on Nonprofit Revenues, FY 1982-85, in Current Dollars (Dollars in billions)

Year	Private Giving in Prior Year[a]	Inflation Rate[b]	Projected Revenue Loss	Percent Change in Private Giving Needed to Keep Pace with Inflation and Offset Nonprofit Revenue Losses
1982	$28.8	7.9%	-$ 3.6	23.9%
1983	$32.3	6.0%	-$10.5	38.5%
1984	$36.3	5.0%	-$14.2	44.1%
1985	$40.8	4.7%	-$16.8	45.9%

Source: See table 18.

a. Assumes giving will actually grow at peak FY 1981 rate of 12.3 percent.

b. Based on the administration's economic assumptions.



Source: See table 19.

Figure 10
Change in Private Giving Needed to Keep Pace with Inflation and Offset the Effect of Federal Budget Cuts on Nonprofit Revenues, 1982-85, in Current Dollars

Conclusion

The conclusion that emerges most clearly from the analysis undertaken here is that nonprofit organizations face a period of considerable fiscal strain over the next several years if the budget proposals now under consideration are enacted in anything like their current form. This strain will be far more intense in some portions of the sector than others--chiefly social welfare, community development, and education--but other types of organizations will be affected as well, since new demands will be placed on all charitable resources.

This strain will persist, moreover, even if the growth rate of private giving remains at the historically high level it achieved in 1981--something that prevailing economic conditions make increasingly problematic, though not impossible. To close the funding gap that nonprofit organizations will experience as a consequence of retrenchment, in fact, private giving would have to grow at several times this rate. And to allow nonprofit organizations to expand their operations to assume the new responsibilities created for them by federal pullback, private giving would have to grow several times faster yet.

Beyond the particulars of specific budget decisions, however, the analysis presented here raises broader questions about the whole pattern of government-nonprofit cooperation that has evolved in this country. Reflecting a set of theories that assumes a sharp conflict between government and the nonprofit sector, the policies embodied in the Economic Recovery Program set out to help the nonprofit sector by getting government out of its way. In fact, however, the realities of government-nonprofit relationships turn out to be far more complex than these theories assume. As a result, a sharp choice has been posed between two alternative "paradigms" for carrying out this nation's public business. One paradigm, embodied in the budget proposals

analyzed here, would significantly reduce the established partnership arrangements between government and nonprofit organizations and seek a sharp separation of the sectors instead. The other paradigm would build on these partnership arrangements and improve them, taking advantage in the process of the complementary advantages of the nonprofit and governmental sectors, the former in the area of service delivery and the latter in the area of funding and democratic priority setting.

How this issue is resolved will shape the character of American public policy for decades to come. While there are advantages and disadvantages on both sides, all parties can agree that the issues involved should be scrutinized publicly and analyzed systematically. If this book has helped to begin such a process, it will have amply served its purpose.

CHAPTER 6

THE BUDGET CHANGES IN DETAIL

Against the backdrop of the previous chapters' discussion of the broad contours of the budget changes likely to affect nonprofit organizations, it is now possible to turn to a more detailed discussion of the specific program changes that lie behind the aggregate figures. To do so, this chapter focuses in turn on each of six different categories of nonprofit organizations of primary concern to us:

- Social services
- Community development
- Education and research
- Health care
- Foreign assistance
- Arts and culture

For each of these types of organizations, this chapter provides an overview of the role of nonprofits in service provision; describes the federal programs that fund the nonprofit organizations and affect the need for their services; and presents a brief chronology of recent budget developments covering President Reagan's February 1981 proposals, the 1981 Omnibus Budget Reconciliation Act and other FY 1982 budget activity, and the president's FY 1983 budget proposals. Let us begin with social service organizations.

Social Service Organizations

Private, nonprofit social service organizations are a diverse lot, including groups providing social services to children and families, and to elderly and disabled people; legal services; and employment and training services.

Social service organizations have been deeply involved in federal program activity. In fact, as table 11 of chapter 4 showed, these organizations received almost 60 percent of their total revenues from federal sources in FY 1980.

Of the federal programs in fields of nonprofit activity examined earlier, three sets are most germane to nonprofit social service organizations: social service programs, employment and training programs, and income assistance programs.[1] Federal activity in these areas not only influences the number of individuals who need to turn to nonprofit organizations for aid but also helps determine the resources available to these organizations to carry out their responsibilities.

The Reagan Budget Proposals

As reflected in tables 20 and 21, federal activity in these three areas is quite extensive, accounting in the first two for about $17.7 billion in outlays in FY 1980, and in the third for an additional $35.7 billion. As these tables also show, however, these programs have been targeted for major cuts in the Reagan administration's budget proposals and in congressional action on the FY 1982 budget to date. In particular, the administration's initial budget proposals in February 1981 advocated complete elimination of a number of programs supporting social service providers, including the legal services program, the public service employment portion of CETA (which also funded other kinds of nonprofits), and the juvenile justice and delinquency

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1. The grouping of programs here thus differs from the "social welfare" classification used in chapter 3. In particular, of the three classes of programs included in "social welfare" in chapter 3, only two are treated here: social services and employment and training. The third--community development--has been split off for separate treatment. In addition, income assistance programs are considered in this section because of their particular relevance to social service organizations.

Table 20

Proposed Changes in Federal Outlays in Social Service and Employment and Training Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars
(Dollars in millions)

Social Services and Employment and Training Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Social Services	$ 7,386	-$1,616	-$ 3,257	-$ 3,623	-$ 3,820	-$12,316	- 52%
Social Services Block Grant[a]	2,706	- 376	- 1,125	- 1,200	- 1,267	- 3,968	- 47%
Community Services Block Grant[b]	592	- 161	- 445	- 513	- 517	- 1,636	- 87%
Head Start	737	- 12	- 7	- 41	- 72	- 132	- 10%
Legal Services	320	- 194	- 310	- 320	- 320	- 1,144	-100%
Rehabilitation Services	427	+ 320	+ 108	+ 66	+ 53	+ 547	+ 12%
Social Services for Elderly	679	- 147	- 208	- 240	- 264	- 859	- 39%
Child Welfare Services[c]	364	+ 55	- 57	- 74	- 87	- 163	- 24%
Domestic Volunteers (ACTION)	133	- 20	- 38	- 47	- 54	- 158	- 40%
Other Social Services	1,428	- 1,081	- 1,175	- 1,254	- 1,292	- 4,803	- 90%
Employment and Training	10,345	- 5,725	- 8,132	- 7,755	- 8,199	- 29,811	- 79%
Comprehensive Employment and Training (CETA)	5,497	- 1,804	- 3,686	- 3,278	- 3,706	- 12,475	- 67%
Public Service Employment[d]	3,697	- 3,464	- 3,694	- 3,697	- 3,697	- 14,551	-100%
Other Employment and Training	1,151	- 457	- 752	- 780	- 796	- 2,785	- 69%
TOTAL	$17,731	-$7,341	-$11,389	-$11,378	-$12,019	-$42,127	- 68%

Source: See table 6.

a. Title XX became the Social Services Block Grant in FY 1982.

b. The Community Services Block Grant replaced the grant activities of the Community Services Administration in FY 1982.

c. The Child Welfare Services Block Grant is proposed for FY 1983 and would include Child Welfare Services, Child Welfare Training, Foster Care, and Adoption Assistance.

d. Public Service Employment was eliminated at the end of FY 1981.

Table 21

Proposed Changes in Federal Outlays in Income Assistance Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars (Dollars in millions)

Income Assistance Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Housing	$ 5,514	+$1,489	+$1,602	+$1,631	+$1,735	+$6,458	+31%
Subsidized Housing (Section 8 and Others)	4,529	+ 1,183	+ 1,359	+ 1,446	+ 1,594	+ 5,582	+35%
Other Housing	985	+ 306	+ 243	+ 185	+ 141	+ 876	+14%
Cash	14,694	- 24	- 1,924	- 3,331	- 3,239	- 8,518	-22%
Supplemental Security Income (SSI)	6,411	+ 298	+ 719	- 476	- 130	+ 411	- 2%
Aid to Families with Dependent Children (AFDC)[a]	7,008	- 112	- 2,312	- 2,420	- 2,565	- 7,409	-37%
Earned Income Tax Credit	1,275	- 210	- 330	- 436	- 543	- 1,519	-43%
Food	13,298	- 856	- 2,323	- 2,575	- 2,735	- 8,488	-21%
Food Stamps[a]	9,117	+ 431	- 801	- 1,028	- 1,194	- 2,590	-13%
Child and Other Nutrition	4,181	- 1,287	- 1,523	- 1,547	- 1,541	- 5,898	-37%
Other	2,168	+ 326	+ 895	+ 646	+ 465	+ 2,333	+21%
Refugee Assistance	368	+ 353	+ 139	+ 2	- 66	+ 428	-18%
Low Income Energy Assistance	1,577	+ 7	- 536	- 585	- 630	- 1,744	-40%
Combined Welfare Administration[a]	0	0	+ 1,325	+ 1,263	+ 1,206	+ 3,794	—
Other	223	- 34	- 33	- 34	- 45	- 145	-20%
TOTAL	$35,674	+ $936	-$1,749	-$3,629	-$3,773	-$8,215	-11%

Source: See table 6.

a. The president's FY 1983 budget proposes a combined welfare administration block grant to states, replacing the existing separate federal grants to states which reimburse them for their administrative costs under the Medicaid, Food Stamp, and AFDC programs. For the FY 1983-85 period, the federal payments to states to cover Medicaid and AFDC administrative costs are included under the Welfare Administration Block Grant program; for FY 1980-82 the federal payments to states are included under the Medicaid and AFDC programs. Thus, a portion of the Medicaid and AFDC cuts in the FY 1983-85 period from FY 1980 levels are actually only a shift to another program, the block grant, and not a true reduction in federal outlays. Expressed in 1980 dollars, the shift involves $507 million in FY 1983, $446 million in FY 1984 and $392 million in FY 1985 for Medicaid; and, $818 million in FY 1983, $817 million in FY 1984 and $814 million in FY 1985 for AFDC. Payments to states for Food Stamp administrative costs continue to be accounted for under the Food Stamp program over the FY 1983-85 period.

prevention program. At the same time, the president proposed merging thirteen major social service programs into a mega-social services block grant to states, which was to be funded far below the combined level of the preexisting individual programs. Major reductions were also proposed in AFDC and Food Stamps.

In the Reconciliation Act it approved in mid-1981 and subsequent action it took on appropriations bills, Congress went along with many, but not all, of the president's proposals in the social services field. As reflected in table 20, only public service employment and the Young Adult Conservation Corps were eliminated by the 1981 Reconciliation Act. Modest block grants were formed in two areas: (1) social services, composed almost entirely of Title XX; and (2) community services, replacing the grant programs of the Community Services Administration. Beyond this, significant reductions were approved for FY 1982 in federal funding of both the social services and community services block grants, legal services, employment and training programs, and other social service activities. In addition, changes were made in the income assistance programs to trim benefits and reduce eligibility in AFDC, Food Stamps, housing assistance, and child and other nutrition programs. However, because of outlays resulting from previous commitments, particularly in the housing programs, and because of built-in inflation adjustments, table 21 records a net increase in spending for income assistance programs in FY 1982. This increase, though, is not as extensive as it would have been under prior law.

In the budget submitted in February 1982, the Reagan administration proposed additional cuts in social service and income assistance programs over the FY 1983-85 period. As reflected in tables 20 and 21, the most salient changes would involve:

- Significant reductions in funding for both the social services and community services block grants.
- The elimination of the legal services program.
- The merger of child welfare service programs, including foster care, into a block grant to the states, and a 25 percent reduction in the support provided for it.
- Additional sharp reductions in employment and training activities.
- Major reductions in the value of federal assistance under the AFDC program, the Earned Income Tax Credit, Food Stamps and other nutrition assistance, and Low-income Energy Assistance.

Implications for Social Service Organizations

These changes in federal support of social service, employment and training, and income assistance programs seem likely to increase the number of people turning to private, nonprofit organizations for assistance. As noted in chapter 4, however, these changes will simultaneously reduce the revenues nonprofit social service organizations have available to meet even existing needs.

Table 22 details the major programs through which these organizations receive federal support, and the impact of the enacted and proposed budget changes on these levels of support. As this table makes clear, the revenues of nonprofit social service organizations will be especially hard hit by the reductions in the CETA, social services block grant, and community services block grant programs. Taken together, these three sets of programs account for almost 80 percent of the $13.6 billion in revenue losses nonprofit social service organizations are projected to experience, in constant 1980 dollar terms, over the FY 1982-85 period. Losses to nonprofits under the proposed elimination of the legal services program would amount to another $1.1 billion over the same period.

Table 22

Proposed Changes in Nonprofit Social Service Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars (Dollars in millions)

Programs Supporting Nonprofit Social Service Organizations	Nonprofit Revenues in FY 1980	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Social Services Block Grant	$1,001	-$ 139	-$ 416	-$ 444	-$ 469	-$ 1,468	- 47%
CETAa	2,640	- 1,229	- 2,118	- 2,094	- 2,184	- 7,626	- 83%
Community Services Block Grant	592	- 161	- 445	- 513	- 517	- 1,636	- 87%
Head Start	579	- 9	- 6	- 32	- 57	- 104	- 10%
Legal Services	320	- 194	- 310	- 320	- 320	- 1,144	-100%
Social Services for Elderlyb	516	- 112	- 158	- 182	- 200	653	- 39%
Child Welfare Services	167	+ 26	- 26	- 34	- 40	- 74	- 24%
Other Social Services	650	- 65	- 222	- 298	- 333	- 916	- 50%
TOTAL	$6,465	-$1,883	-$3,701	-$3,917	-$4,120	-$13,621	- 64%

Source: See table 13.

a. Includes federal outlays to all nonprofits under general training, youth, and older workers program, and federal outlays to social service groups under public service employment. Not included are outlays to non-social-service nonprofits (i.e., arts, education, and other groups) under public service employment.

b. Does not include transfer from Department of Agriculture.

Beyond these revenue reductions, moreover, nonprofit social service organizations will also have to adjust to new program rules that vest greater discretion in state and local governments.

Community Development Organizations

If nonprofit social service organizations are likely to be the most heavily affected by the proposed budget changes now under consideration, nonprofit community development organizations will be the second most heavily affected. These organizations are engaged in activities that include general

neighborhood improvement, community-based economic development, provision of housing for the poor and other special groups, preservation of historic structures, protection of the natural environment, and general community organization and representation. As noted in chapter 4, these organizations receive a particularly significant share of their total revenues from federal sources. Indeed, many organizations of this type were created, at least in part, as a direct byproduct of a stimulus initially provided by a federal program. This was the case, for example, with multicounty economic development districts, local community development corporations, neighborhood housing services organizations, and others.

The Reagan Budget Proposals

As noted in tables 23 and 24, the Reagan budget proposals target substantial reductions in the two sets of federal programs of particular interest to this type of organization--community development and conservation and environment--and many of these proposals were endorsed by Congress in its action on the FY 1982 budget. Among the major programs, only the Urban Development Action Grant program shows significant real growth over its FY 1980 spending level. Of the remaining programs, the most important changes enacted or proposed involve:

- Substantial reductions in the real value of resources committed to the Community Development Block Grant program and a change that gives states control over the small-cities portion of this program.
- Elimination of the Economic Development Administration programs. This was proposed for FY 1982, partly carried out, and now re-proposed for FY 1983.
- Elimination of the Neighborhood Self-Help Housing program, a small program but one that almost exclusively funded nonprofit neighborhood organizations.

- Significant cuts in outlays for the Housing for Elderly and Handicapped Program.[2]

- The elimination of energy conservation grants, the solar energy and energy conservation banks, Historic Preservation Fund, and the Youth Conservation Corps.

- Restrictions against the use of proceeds from the land and water conservation fund for acquisition of parkland by states.

Table 23

Proposed Changes in Federal Outlays in Community Development Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars
(Dollars in millions)

Community Development Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Community Development Block Grant (CDBG)	$3,902	-$ 501	-$1,219	-$1,460	-$1,383	-$ 4,564	- 35%
Urban Development Action Grants (UDAG)	225	+ 221	+ 216	+ 176	+ 155	+ 767	+ 69%
FmHA Rural Development	798	+ 107	+ 177	+ 65	+ 4	+ 353	+ 1%
Economic Development Assistance	629	- 271	- 419	- 509	- 567	- 1,766	- 90%
Regional Commissions	458	- 182	- 217	- 329	- 396	- 1,124	- 86%
Housing for Elderly or Handicapped	753	- 149	- 524	- 792	- 633	- 2,098	- 84%
Rural Housing	1,719	- 789	- 422	- 403	- 424	- 2,038	- 25%
Energy Conservation Grants	372	+ 65	- 189	- 296	- 372	- 791	-100%
Other Community Development	1,072	- 468	- 649	- 685	- 633	- 2,434	- 32%
TOTAL	$10,828	-$1,967	-$3,235	-$4,233	-$4,249	-$13,685	- 39%

Source: See table 6.

2. The outlay reductions for the housing for elderly or handicapped program recorded in tables 23 and 25 reflect both programmatic cuts as well as the effects of the sale of federal loan assets beginning in FY 1983. The programmatic cuts amount to a reduction in the number of subsidized units from 17,000 in FY 1982 to 10,000 units in subsequent years.

Table 24

Proposed Changes in Federal Outlays in Environment and Conservation Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars
(Dollars in millions)

Environment and Conservation Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Urban Park and Recreation Grants	$ 4	+$ 50	+$ 27	+$ 2	- $2	+$ 78	- 45%
Youth Conservation Corps	60	- 54	- 60	- 60	- 60	- 234	-100%
Land and Water Conservation Fund	535	- 271	- 449	- 507	- 553	- 1,780	- 93%
Historic Preservation Fund	49	- 12	- 31	- 49	- 49	- 140	-100%
TOTAL	$70[illegible]	-$286	-$513	-$614	-$664	-$2,076	- 94%

Source: See table 6.

In addition, community development organizations will be affected by the changes in housing assistance recorded in table 21, and the changes in community services funding recorded in table 22. The latter are important because of their implications for support of the Community Development Corporation program, which was made part of the Community Services Block Grant in the Reconciliation Act of 1981.

Implications for the Revenues of Community Development Organizations

As table 25 shows, these changes have important implications for community development organization revenues from federal sources. In fact, of the $2.3 billion in support these organizations received from federal sources in FY 1980, only the equivalent of $0.8 billion would be left by FY 1985 if these proposals were enacted.

A major share of these reductions results, as table 25 makes clear, from changes in the public service employment program, which delivered considerable

assistance to nonprofit community development organizations. Also important are the reductions in nonprofit revenues from the elderly and handicapped housing programs, where nonprofits have been active as sponsors of housing construction or rehabilitation efforts.3 Altogether, $4.9 billion is scheduled to be cut out of the stream of revenues reaching nonprofit community development organizations over the FY 1982-85 period.

Table 25

Proposed Changes in Nonprofit Community Development Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars
(Dollars in millions)

Programs Supporting Nonprofit Community Development Organizations	Nonprofit Revenues in FY 1980	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Community Development Block Grant	$ 390	-$ 50	-$ 122	-$ 146	-$ 138	-$ 456	- 35%
Housing for Elderly or Handicapped	753	- 149	- 524	- 792	- 633	- 2,098	- 84%
Public Service Employment - Community Development	339	- 317	- 338	- 339	- 339	- 1,333	-100%
ACTION	133	- 20	- 38	- 47	- 54	- 158	- 40%
Energy Conservation Grants	151	+ 26	- 76	- 120	- 151	- 320	-100%
FmHA Rural Development	112	+ 15	+ 25	+ 9	+ 1	+ 50	+ 1%
Rural Housing	103	- 47	- 25	- 24	- 25	- 122	- 25%
Economic Development Assistance	54	- 23	- 36	- 44	- 49	- 152	- 90%
Other Community Development	263	- 54	- 68	- 90	- 99	- 311	- 38%
TOTAL	$2,298	-$619	-$1,202	-$1,593	-$1,487	-$4,900	- 65%

Source: See table 13.

3. See footnote 2.

Education and Research Organizations

Total federal spending on education and research programs of relevance to nonprofit organizations--including Defense Department research--totaled $22.4 billion in FY 1980.[4] As table 26 shows, $7.0 billion of this went for elementary and secondary education, $10.8 billion for higher education, and $4.7 billion for federal support of research and development outside the government in colleges and universities and nonprofit research institutes.

The Reagan Budget Proposals

The Reagan administration has proposed reductions in the value of federal support in all three of these areas, as table 26 makes clear. In the field of elementary and secondary education, major reductions were originally targeted for the Education for the Disadvantaged and Impact Aid programs, and partly endorsed by Congress for FY 1982. Congress also approved a state education block grant combining over 40 education programs and funded at a considerably lower level than the preexisting separate programs. The FY 1983 budget proposes to extend and deepen these cuts during FY 1983-85, and to seek consolidations and reduced funding for vocational and adult education programs and handicapped programs.

In the area of higher education, the major changes proposed, and partly enacted for FY 1982, involve the following:

- Phasing out of Social Security adult student benefits.
- Reductions in the Pell Grant and other campus-based aid programs.

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4. The $4.7 billion for research and development which is included in this total covers only federal research and development outlays flowing outside the government to colleges and universities and nonprofit research institutes. Intramural government spending and outlays going to for-profit businesses are not included.

Table 26

Proposed Changes in Federal Outlays in Education and Research and Development Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars
(Dollars in millions)

Education/R and D Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Elementary and Secondary	$ 6,967	-$ 944	-$2,588	-$3,517	-$ 4,118	-$11,169	-59%
Education for the Disadvantaged (Chapter 1)[a]	2,958	- 578	- 1,032	- 1,415	- 1,812	- 4,837	-61%
State Education Block Grant (Chapter 2)[b]	NA	(566)	(463)	(336)	(244)	NA	NA
Impact Aid	690	- 198	- 403	- 456	- 479	- 1,534	-69%
Vocational and Adult	863	+ 88	- 347	- 453	- 497	- 1,210	-58%
Other Elementary and Secondary	2,456	- 256	- 806	- 1,193	- 1,330	- 3,588	-54%
Higher	10,791	- 1,082	- 3,231	- 5,419	- 6,304	- 16,035	-58%
Student Aid (Pell Grants, Campus-based Aid)	3,683	- 718	- 1,171	- 2,339	- 2,657	- 6,885	-72%
Guaranteed Student Loans	1,408	+ 976	+ 635	+ 506	+ 416	+ 2,533	+30%
Social Security Adult Student Benefits	2,000	- 390	- 1,131	- 1,462	- 1,673	- 4,656	-84%
Veterans' Educational Benefits	2,342	- 743	- 1,095	- 1,379	- 1,583	- 4,800	-68%
Other Higher Education	1,358	- 207	- 469	- 745	- 807	- 2,227	-59%
Research and Development[c]	4,696	- 19	- 193	- 212	- 324	- 748	- 7%
Department of Defense	578	+ 106	+ 204	+ 282	+ 363	+ 955	+63%
Department of Health and Human Services	2,423	- 85	- 167	- 260	- 355	- 867	-15%
National Science Foundation	687	+ 25	- 82	- 27	- 91	- 174	-13%
Other Research and Development	1,008	- 66	- 148	- 207	- 241	- 662	-24%
TOTAL	$22,445	-$2,046	-$6,012	-$9,148	-$10,746	-$27,951	-48%

Source: See table 6.

a. Does not include chapter 1 support for educating the handicapped.

b. FY 1980 outlays for the predecessor programs to the State Education Block Grant, which was created in FY 1982, are not available. The figures in the chart are the absolute spending levels for FY 1982-85 for the block grant from the president's FY 1983 budget, with spending expressed in constant 1980 dollars.

c. Included in research and development outlays is federal spending on research and development which goes outside the government to colleges and universities and nonprofit research institutes. Intramural government spending and outlays going to for-profit businesses are not included.

- o The tightening of eligibility requirements for the Guaranteed Student Loan program--a needs test is now required of students from families with incomes above $30,000. However, federal outlays for the program continue to rise in FY 1982 because of the high prevailing interest rates that the government subsidizes. In the FY 1983 budget, a needs test is proposed for all students, and increases are proposed for student loan fees.

- o Elimination of Supplemental Educational Opportunity Grants and of federal contributions to the National Direct Student Loan program.

In the research and development field, substantial increases are projected in defense research, but even larger reductions are proposed in other areas.

Implications for the Revenues of Nonprofit Education and Research Organizations

These changes in federal support for education and research activities have important implications for nonprofit education and research organizations. However, these implications differ for the different types of nonprofit organizations in this field. This is so, in the first instance, because not all of these organizations are equally involved in federal programs. Most importantly, private nonprofit elementary and secondary education institutions receive little government support, largely because most of them are church-related and are constitutionally barred from receipt of public funds. Thus, as table 27 reports, only $0.4 billion of the $5.6 billion in federal aid to nonprofit education and research organizations in FY 1980 went to elementary and secondary education institutions. The remainder is split almost evenly between higher education and research and development. Because of the growth of defense research and development, however, federal support of research and development in nonprofit organizations does not decline anywhere near as extensively as federal support of nonprofit higher education. Among nonprofit research and development organizations, however, those not heavily

Table 27

Proposed Changes in Nonprofit Education and Research Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars
(Dollars in millions)

Programs Supporting Nonprofit Education and Research Organizations	Nonprofit Revenues in FY 1980	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Elementary and Secondary[a]	$ 376	-$234	-$ 270	-$ 292	-$ 307	-$1,104	-82%
Higher Education	2,683	- 201	- 740	- 1,328	- 1,536	- 3,805	-57%
Student Aid (Pell Grants, Campus-based Aid)	1,031	- 201	- 328	- 655	- 744	- 1,928	-72%
Guaranteed Student Loans	394	+ 273	+ 178	+ 142	+ 117	+ 709	+30%
Social Security Student Benefits	420	- 82	- 238	- 307	- 351	- 978	-84%
Other Higher Education[a]	838	- 191	- 352	- 508	- 558	- 1,608	-67%
Research and Development[b]	2,537	- 3	- 70	- 74	- 113	- 260	- 4%
Department of Defense	407	+ 74	+ 144	+ 199	+ 256	+ 673	+63%
Department of Health and Human Services	1,374	- 48	- 95	- 147	- 201	- 491	-15%
National Science Foundation	310	+ 11	- 37	- 12	- 41	- 78	-13%
Other Research and Development	446	- 40	- 82	-114	- 127	- 364	-28%
TOTAL	$5,597	-$438	-$1,080	-$1,694	-$1,957	-$5,168	-35%

Source: See table 13.

a. Includes outlays from the public service employment program flowing to nonprofit education and research and development organizations.

b. Includes money going to nonprofit colleges and universities and research institutes.

involved in space or defense activities do stand to be affected substantially by the proposed cuts. In short, the impact of the proposed cuts in federal education and research programs on nonprofit organizations is most significant in the case of college and university teaching programs.

Health Care Organizations

Hospitals, nursing homes, and other health organizations comprise by far the largest component of the nonprofit sector and absorb the largest share of federal revenues flowing to the sector. Altogether, federal outlays on health programs totaled $53.7 billion in FY 1980, as table 28 shows. Included in this figure, however, are two quite distinct kinds of programs: first, the health care financing programs, Medicare and Medicaid; and second, an assortment of health care service programs, including programs providing support for community health centers; drug abuse, alcohol, and mental health activities; maternal and child health services; and others.

Of these two types of programs, the latter are more numerous, but the former are overwhelmingly larger, accounting for over 90 percent of federal health care outlays.

The Reagan Budget Proposals

In its initial budget proposals in February 1981, the Reagan administration targeted few cuts in the massive Medicare program but proposed to put a cap on federal Medicaid expenditures (Medicaid is a joint federal-state program), and to consolidate most of the health service programs into two large block grants and significantly reduce the funding for them. The Congressional Reconciliation Act of 1981 rejected the complete Medicaid cap and the full administration proposal for health care block grants, but it did the following:

Table 28

Proposed Changes in Federal Outlays in Health Care Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars
(Dollars in millions)

Health Care Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Health Care Finance	$49,062	-$1,537	-$3,737	-$5,084	-$6,081	-$16,439	-12%
Medicare[a]	35,034	- 115	- 395	- 1,349	- 1,959	- 3,818	- 6%
Medicaid[a,b]	14,028	- 1,422	- 3,342	- 3,735	- 4,122	- 12,621	-29%
Health Services	4,675	- 178	- 859	- 1,175	- 1,239	- 3,451	-26%
Primary Care Block Grant[c]	484	- 71	- 27	- 124	- 171	- 393	-35%
Services for Women, Infants, and Children Block Grant[c]	1,078	+ 156	- 141	- 306	- 347	- 638	-32%
Preventive Health Block Grant[c]	194	- 78	- 112	- 126	- 132	- 448	-68%
Alcohol, Drug Abuse, and Mental Health Services Block Grant[c]	708	- 130	- 331	- 376	- 393	- 1,230	-56%
Other Health Services	2,211	- 55	- 248	- 243	- 196	- 742	- 9%
TOTAL	$53,737	-$1,716	-$4,595	-$6,260	-$7,320	-$19,890	-14%

Source: See table 6.

a. A special deflator, which takes into account the particularly high rates of projected increases in health care costs, was used to deflate projected Medicare and Medicaid spending.

b. The president's FY 1983 budget proposes a combined welfare administration block grant to states, replacing the existing separate federal grants to states which reimburse them for their administrative costs under the Medicaid, Food Stamp, and AFDC programs. For the FY 1983-85 period, the federal payments to states to cover Medicaid administrative costs are included under the welfare administration block grant program in the income assistance policy area (see table 21); for the FY 1980-82 period the federal payment to states is included under the Medicaid program listed here. Thus, a portion of the Medicaid cuts in the FY 1983-85 period from FY 1980 levels is actually only a shift to another program, the block grant, and not a true reduction in federal outlays. Expressed in 1980 dollars, the shift involves $507 million in FY 1983, $446 million in FY 1984, and $392 million in FY 1985.

c. The block grants are included here as they are proposed in the president's FY 1983 budget. The FY 1983 budget proposes Primary Care and Services for Women, Infants, and Children Block Grants, which add additional programs to two of the block grants created in the 1981 Reconciliation Act. The Preventive Health and Alcohol, Drug Abuse, and Mental Health Services Block Grants are continued in the same form in which they were created in the 1981 Reconciliation Act.

- o Reduced the federal match on Medicaid reimbursements to states.
- o Cut Medicare somewhat by reducing reimbursements to hospitals for certain services, limiting coverage, and increasing the deductibles paid by patients.
- o Created four, instead of two, health service block grants--one each for maternal and child health; preventive health; alcohol, drug abuse, and mental health services; and primary health care.

In its FY 1983 budget, the administration lifted its earlier embargo on Medicare cuts and proposed additional changes in other health programs. In particular, these proposals would:

- o Reduce federal reimbursements to hospitals for Medicare by 2 percent. (Additional reforms of the Medicare program were promised for FY 1984 and FY 1985.)
- o Further reduce Medicaid payments.
- o Sharply reduce funding for the new Preventive Health and Alcohol, Drug Abuse, and Mental Health Services Block Grants. (By 1985, the value of outlays under these two programs is scheduled to decline by 68 percent and 56 percent, respectively, below what was spent on the preexisting component programs in FY 1980.)
- o Fold additional programs into the two other health service block grants (primary care and maternal and child health care), and reduce the value of funding for both.

Implications for the Revenues of Nonprofit Health Organizations

These changes in federal health care support have important implications for the revenues of nonprofit health care organizations. As table 29 reveals, $24.9 billion of the $53.7 billion in overall federal health care expenditures reported in table 28 goes to nonprofit providers, mostly hospitals. Of this total, 95 percent ($23.5 billion) takes the form of health care finance reimbursements, four-fifths of which is for Medicare services. The cuts in these programs thus translate into substantial absolute reductions in the revenues of these organizations. In addition, the overall cuts in the Medicaid program, by reducing the services that those in need will be able to receive from

Table 29

Proposed Changes in Nonprofit Health Care Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Receipts, in Constant 1980 Dollars
(Dollars in millions)

Programs Supporting Nonprofit Health Care Organizations	Nonprofit Revenues in FY 1980	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Health Care Finance	$23,548	-$518	-$1,284	-$1,929	-$2,385	-$6,116	-10%
Medicare[a]	19,058	- 62	- 215	- 734	- 1,066	- 2,077	- 6%
Medicaid[a]	4,489	- 455	- 1,069	- 1,195	- 1,319	- 4,039	-29%
Health Services	1,355	- 199	- 484	- 585	- 679	- 1,947	-50%
Primary Care Block Grant[b]	194	- 28	- 11	- 50	- 68	- 157	-35%
Services for Women, Infants, and Children Block Grant[b]	108	+ 16	- 14	- 31	- 35	- 64	-32%
Preventive Health Block Grant[b]	49	- 20	- 28	- 32	- 33	- 112	-68%
Alcohol, Drug Abuse, and Mental Health Services Block Grant[b]	432	- 79	- 202	- 229	- 240	- 750	-56%
Other Health Services[c]	572	- 88	- 229	- 243	- 303	- 864	-53%
TOTAL	$24,902	-$717	-$1,768	-$2,515	-$3,064	-$8,063	-12%

Source: See table 13.

a. A special deflator, which takes into account the particularly high rates of projected increases in health care costs, was used to deflate projected Medicare and Medicaid spending.

b. The block grants are included here as they are proposed in the president's FY 1983 budget. The FY 1983 budget proposes Primary Care and Services for Women, Infants and Children Block Grants, which add additional programs to two of the block grants created in the 1981 Reconciliation Act. The Preventive Health and Alcohol, Drug Abuse, and Mental Health Services Block Grants are continued in the same form in which they were created in the 1981 Reconciliation Act.

c. Includes revenues from CETA public service employment going to nonprofit health organizations.

public or for-profit hospitals, are likely to increase the number of people seeking help from nonprofit providers.

While the reductions in nonprofit health organization revenues resulting from the cuts in health finance programs are large in absolute terms, they are not as large in relative terms as the reductions in the health service programs. Nor is their impact likely to be as great given the overall scale of the hospital sector. In the case of the health service cuts, however, the effects on nonprofit organizations are likely to be quite substantial. In a number of cases, in fact, federal programs were instrumental in the creation of a network of nonprofit providers. This is the case, for example, with the community health clinics and the community mental health center program. The heavy cuts scheduled for these programs may therefore throw the continued survival of many of these nonprofit clinics into question. As reflected in table 29, the cuts in the health service field are almost as extensive as in the social services field, representing a substantial withdrawal of the federal government from partnership arrangements with nonprofit health service providers.

Foreign Assistance Organizations

Nonprofits in the foreign aid field consist of American-based organizations that provide services in foreign countries, including nutrition assistance, health care, education, refugee resettlement, disaster aid, and economic development. Among the major U.S. nonprofits involved in activities abroad are CARE, Catholic Relief Services, and Planned Parenthood.

The federal programs of greatest relevance to these organizations include the development programs of the Agency for International Development (AID); the Public Law 480 program, which uses American-based nonprofits to distribute

food in foreign countries; the refugee assistance programs administered by the State Department, which aid refugees abroad and help resettle some in the United States;5 general economic aid; assistance to multilateral development banks; and the Peace Corps. As table 30 reveals, outlays on these programs totaled $6.9 billion in FY 1980.

Table 30

Proposed Changes in Federal Outlays in Foreign Aid Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars
(Dollars in millions)

Foreign Aid Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Agency for International Development (AID)	$1,428	-$ 65	-$ 50	-$ 79	-$103	-$ 298	- 7%
Multilateral Development Assistance	784	+ 158	+ 220	+ 258	+ 175	+ 811	+22%
Public Law 480 Food Aid	1,073	- 104	- 250	- 307	- 353	- 1,014	-33%
Peace Corps	101	- 12	- 23	- 26	- 30	- 90	-29%
Economic Support and Peacekeeping	1,904	+ 194	+ 288	+ 364	+ 265	+ 1,112	+14%
Refugee Assistance	446	- 51	- 82	- 113	- 158	- 404	-35%
International Organizations and Conferences	492	- 89	- 26	- 18	- 27	- 161	- 5%
Foreign Information and Exchange	534	- 25	- 9	- 1	+ 10	- 26	+ 2%
Other Foreign Aid	181	- 29	- 58	- 68	- 64	- 219	-35%
TOTAL	$6,943	-$ 24	+$ 10	+$ 10	-$285	-$ 289	- 4%

Source: See table 6.

5. Much of the income assistance and social services for refugees who have settled in the U.S. is funded through the Department of Health and Human Services and is included in this report in the social services section.

The Reagan Budget Proposals

The Reagan administration proposed only limited reductions in the value of foreign assistance expenditures in its initial budget submission, and Congress generally went along with the administration's proposals for FY 1982. The overall value of federal support is also not projected to decline by much over the period FY 1982-85 under the administration's FY 1983 budget. However, within this total the composition of federal activity is scheduled to change. In particular, the administration proposes to increase spending on the economic support and peacekeeping component of foreign aid while cutting back in all other areas except multilateral development aid. Aside from the economic support and peacekeeping activities, therefore, the value of federal aid in the foreign assistance programs noted here is slated to drop by 28 percent between FY 1980 and FY 1985.

Implications for the Revenues of Nonprofit Foreign Aid Organizations

Because nonprofit organizations are not involved directly in the economic support and peacekeeping activities, they do stand to lose revenues in the international assistance area despite the modest overall reduction recorded in table 30. In particular, as table 31 shows, the value of nonprofit revenues in this field is likely to fall by 24 percent between FY 1980 and FY 1985 under the administration's proposals. Most heavily affected will be the organizations involved in P.L. 480 Food Aid activities and refugee work, where cuts in the value of nonprofit revenues of 33 percent and 35 percent, respectively, are projected.

Table 31

Proposed Changes in Nonprofit Foreign Aid Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars
(Dollars in millions)

Programs Supporting Nonprofit Foreign Aid Organizations	Nonprofit Revenues in FY 1980	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Agency for International Development (AID)	$143	-$ 7	-$ 5	-$ 8	-$ 10	-$ 30	- 7%
Public Law 480 Food Aid	376	- 36	- 87	- 107	- 124	- 355	-33%
Refugee Assistance	125	- 14	- 23	- 32	- 44	- 113	-35%
Foreign Information and Exchange	68	- 3	- 1	0	+ 1	- 3	+ 2%
Other	50	- 6	- 5	- 5	- 6	- 22	-12%
TOTAL	$762	-$66	-$121	-$152	-$183	-$523	-24%

Source: See table 13.

Cultural Organizations

Nonprofit organizations are involved in a wide assortment of cultural and artistic activities. In fact, a sizable share of the nation's museums, art galleries, symphonies, community arts facilities, theaters and the like are nonprofit institutions.

While nonprofit involvement in the cultural field is extensive and varied, federal involvement is relatively new and relatively limited, although there are historical roots in the Depression-era writers project. As reflected in table 32, federal outlays on cultural activities totaled $645 million in FY 1980, about half of which went for the National Endowment for the Arts and the National Endowment for the Humanities and the remainder of which was split among the Corporation for Public Broadcasting, federal installations like the Smithsonian Institutions, and the small Institute of Museum Services.

Table 32

Proposed Changes in Federal Outlays in Arts and Culture Programs of Interest to Nonprofit Organizations, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Outlays, in Constant 1980 Dollars
(Dollars in millions)

Arts and Culture Programs	Actual FY 1980 Outlays	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Corporation for Public Broadcasting	$152	-$ 6	-$ 42	-$ 80	-$ 90	-$219	- 59%
National Endowment for the Arts	152	- 34	- 38	- 74	- 77	- 223	- 51%
National Endowment for the Humanities	157	- 48	- 60	- 80	- 86	- 275	- 55%
Smithsonian and Other Institutions	171	+ 18	+ 8	- 5	- 5	+ 15	- 3%
Institute of Museum Services	13	+ 4	- 7	- 8	- 13	- 24	-100%
TOTAL	$645	-$67	-$140	-$248	-$271	-$726	- 42%

Source: See table 6.

The Reagan Budget Proposals

In the budget it submitted to Congress in February 1981, the Reagan administration proposed massive cuts in the federal government's involvement in cultural and artistic activities. Under these proposals:

- Spending by the Arts and Humanities Endowments would have been cut in half.
- The public service employment portion of CETA, which helped staff arts organizations, would have been eliminated.
- The Institute of Museum Services would have been abolished.
- The Corporation for Public Broadcasting is on a different budget schedule from other government agencies and ordinarily has its funding set two years in advance. The Corporation faced proposed rescissions in its FY 1982 and 1983 appropriations, which had been passed in previous years, as well as cuts in its FY 1984 budget, which was considered with the FY 1982 budgets of other agencies.

While accepting some of these proposals, Congress rejected many more, leaving projected federal spending on cultural programs for FY 1982 only 10 percent below FY 1980 levels. In its FY 1983 budget, therefore, the administration repeated its call for cuts proposing:

- o A further 30 percent reduction in funding for the endowments.
- o Further cuts for public broadcasting.
- o Elimination of the Institute of Museum Services.

Implications for the Revenues of Nonprofit Cultural Organizations

These changes in federal support for arts programs, coupled with the elimination of the CETA program, which provided significant aid to many nonprofit cultural organizations, would all but end the federal government's active cooperation with nonprofit organizations in this field. As table 33 shows, federal support of nonprofit cultural organizations would decline under these proposals from approximately $350 million in FY 1980 to $111 million in FY 1985, a drop of 68 percent.

Because arts organizations receive, on average, a considerably smaller share of their total revenues from federal sources than most other types of nonprofit organizations, the impact of these changes on this class of nonprofit organization may be considerably less dramatic than these figures suggest. However, three considerations challenge such a conclusion. First, while nonprofit cultural organizations as a whole received about 12 percent of their revenues from federal sources in FY 1980, as reported in chapter 4, some types of nonprofit organizations received considerably more. Nonprofit television and radio stations, for example, received 27 percent of their revenues from public sources in 1980.6 Federal support through the CETA program was also apparently of real importance to numerous community arts programs, which

will be forced to contract considerably as a consequence of the elimination of the CETA-public service employment program.

Table 33

Proposed Changes in Nonprofit Arts and Culture Organization Revenues from Federal Sources, by Program, Reagan Administration's FY 1983 Budget vs. FY 1980 Actual Receipts, in Constant 1980 Dollars
(Dollars in millions)

Programs Supporting Nonprofit Arts and Culture Organizations	Nonprofit Revenues in FY 1980	Proposed Changes from FY 1980					Percent Change FY 1985 vs. FY 1980
		FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85	
Corporation for Public Broadcasting	$114	-$ 4	-$ 32	-$ 60	-$ 68	-$164	- 59%
National Endowment for the Arts	67	- 15	- 17	- 33	- 34	- 98	- 51%
National Endowment for the Humanities	69	- 21	- 26	- 35	- 38	- 121	- 55%
Institute of Museum Services	12	+ 4	- 6	- 8	- 12	- 22	-100%
Public Service Employment-Arts and Culture	88	- 82	- 88	- 88	- 88	- 346	-100%
TOTAL	$350	-$119	-$169	-$224	-$239	-$751	- 68%

Source: See table 13.

In addition, federal budget cuts may have impacts beyond their dollar amounts because many federal aid programs in the arts field took the form of challenge grants, under which federal support cannot be released unless matched by corresponding private support. To the extent these programs stimulated increased private giving--as many claim--their elimination may have more than a dollar-for-dollar effect on nonprofit revenues.

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6. Status Report of Public Broadcasting, 1980 (Washington, D.C. Corporation for Broadcasting, 1981), p. 15. These data include both public and private nonprofit organizations.

Finally, the overall reduction of federal support for nonprofit organizations outside the cultural field may affect cultural organizations indirectly, by increasing the competiton for available private charitable resources. To the extent this occurs, nonprofit cultural organizations stand to lose far more than their existing federal revenues.

CHAPTER 7

EPILOGUE

CONGRESSIONAL ACTION ON THE FY 1983 BUDGET: THE FIRST BUDGET RESOLUTION

The discussion of federal budget developments of concern to nonprofit organizations presented in previous chapters took as given that the budget proposals the president unveiled in February 1982 for the FY 1983-85 period would be enacted pretty much as proposed. In practice, however, federal spending activity is ultimately determined not by what the president proposes but by what the Congress authorizes or appropriates, which is sometimes a far different thing.

Unfortunately, Congress has not yet completed action on the FY 1983 budget as of this writing. Nevertheless, in June 1982 it passed its First Concurrent Resolution on the FY 1983 budget, which provides a preliminary indication of how the FY 1983 budget battle will turn out. This chapter compares this congressional resolution to the president's proposals in the areas of greatest concern to nonprofit organizations in order to determine how close the data presented above will be to what Congress is likely to approve.

In making this comparison, two important caveats must be borne in mind. First, the budget resolution passed by Congress in June 1982 is by no means the end of the FY 1983 congressional budget process. Formally speaking, detailed congressional decisions about spending levels are set in appropriations bills and in legislation authorizing spending under "entitlement programs,"

not in the budget resolution. Given the tensions and complexities of the budget process this year, there is a reasonable prospect that Congress will not enact these measures by the beginning of the fiscal year and that at least some parts of the government may operate on "continuing resolutions" through part of FY 1983, as they did through much of FY 1982.

Beyond this, the First Budget Resolution does not provide the level of detail needed to replicate in full the analysis of the effects of budget cutbacks on the need for nonprofit services or on the revenues of nonprofit organizations presented earlier. The earlier analysis relied on outlay projections available in the official budget documents at the program, or budget-account, level of detail. The First Budget Resolution, in contrast, sets targets not for individual programs but for the nineteen broad functional areas into which the budget is divided. Although the First Budget Resolution's outlay targets for the various functional areas were, in fact, put together on the basis of assumptions made by House and Senate Budget Committees about program-level spending, these program spending projections are not suitable for our analysis because the projections differ between the House and Senate, and, more important, because they do not have the force of congressional concurrence that the functional targets have.

Nevertheless, it is possible to get a rough idea of what the First Budget Resolution might mean for nonprofit organizations by focusing on these functional totals. Although this analysis will not be strictly comparable to the more detailed analysis in the preceding chapters, it should at least provide some basis for assessing how congressional action on the FY 1983 budget to date compares with the original Reagan administration proposals.

The starting point for such an analysis must be the budget aggregates. As table 34 shows, in absolute terms, unadjusted for inflation, the First Budget

Table 34

Total Federal Outlays, FY 1982-85, President Reagan's FY 1983 Budget vs. the First Congressional FY 1983 Budget Resolution, in Actual Dollars (Dollars in billions)

	FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85
President's Budget	$725.3	$757.6	$805.9	$868.5	$3,157.3
First Budget Resolution	734.1	769.8	821.9	881.4	3,207.2
Difference, Congress vs. President	+$ 8.8	+$ 12.2	+$ 16.0	+$ 12.9	+$ 49.9

Resolution projects overall spending targets that are higher than those in the president's FY 1983 budget. Because Congress assumes generally higher rates of inflation than the administration did, however, the two sets of targets are quite similar after adjusting for inflation, as table 35 shows. In fact, the congressional targets are actually lower than the president's in constant-dollar terms in FY 1984 and FY 1985.

Table 35

Total Federal Outlays, FY 1982-85, the First Congressional FY 1983 Budget Resolution vs. President Reagan's FY 1983 Budget, in Constant 1980 Dollars (Dollars in billions)

	FY 1982	FY 1983	FY 1984	FY 1985	Total FY 1982-85
President's Budget	$615.9	$606.8	$614.9	$633.0	$2,470.6
First Budget Resolution	$625.8	$611.5	$612.9	$620.0	$2,470.2
Difference, Congress vs. President	+$ 10.0	+$ 4.7	-$ 2.0	-$ 13.0	-$ 0.4

Within these overall totals, however, the congressional and presidential budgets differ significantly in the relative priorities they place on different activities. In particular, Congress has been somewhat more generous than the president in the program areas of special concern to nonprofit organizations, but not by much. In the five budget functions listed in table 36, which cover many of the federal programs of interest to nonprofit organizations,[1] the budget resolution would make real cuts over the FY 1982-85 period of $84.1 billion below FY 1980 spending levels, or about three-quarters of the $116.8 billion in cuts that the president's FY 1983 budget proposed. In education, training and employment, and social services, for example, the cuts proposed by the budget resolution are $39.9 billion, or 73 percent of the $54.6 billion in cuts proposed by the president. Only in two fields, in fact, do the congressional and presidential proposals diverge by more than this. By and large, therefore, in the areas of greatest relevance to nonprofit organizations, the First Budget Resolution and the president's budget have far more similarities than differences.

The submission of the president's budget and passage of the First Congressional Budget Resolution are only the opening shots in the battle of the FY 1983 budget. While much can still change, however, it seems likely that

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1. It is important to reiterate that the functional classifications recorded in table 36 are not the same as the program area groupings used in the preceding chapters. For example, social services, employment and training, and community development were included in our social welfare category earlier, and education was broken out separately. In the functional classification, however, education is included with employment and training and social services, while community development is handled separately. This is important because Congress has generally been more willing to allocate funds for education than has the administration. The real cuts advocated by Congress in the social services and employment and training parts of this budget function may therefore be closer to the administration's proposals than table 36 suggests.

Table 36

Proposed Changes in Federal Outlays in Selected Functions, FY 1982-85, Actual FY 1980 Spending vs. President Reagan's FY 1983 Budget vs. the First Congressional FY 1983 Budget Resolution, in Constant 1980 Dollars[a]
(Dollars in billions)

Budget Function	Actual FY 1980 Outlays	FY 1982-85 Outlays at FY 1980 Levels[b]	Proposed Changes, FY 1982-85, from FY 1980 Levels: President's FY 1983 Budget	Proposed Changes, FY 1982-85, from FY 1980 Levels: First Budget Resolution	First Resolution Cuts as a Percent of President's Proposed Cuts
Education/ Training and Employment/ Social Services	$ 30.8	$123.2	-$ 54.6	-$39.9	73%
Community and Regional Development	10.1	40.4	- 17.4	- 16.3	94%
Health	55.2	220.8	- 28.3	- 22.3	79%
Income Assistance	36.7	146.8	- 11.3	+ 1.2	--
International Affairs	10.7	42.8	- 4.9	- 6.8	139
TOTAL	$143.5	$574.0	-$116.8	-$84.1	72%

a. Special deflator for health care finance.
b. Calculated as FY 1980 outlays x 4.

in the areas of particular concern here, the basic contours of the changes outlined in the president's FY 1983 budget proposals, and analyzed earlier in detail, will survive. To the extent they do, the challenge to the nonprofit sector will be sizable.

APPENDIX A

A LAYMAN'S GUIDE TO BUDGETING

APPENDIX A

A LAYMAN'S GUIDE TO BUDGET CONCEPTS

I. Budget Concepts

Federal budget and spending activity takes four quite different forms, reflecting different phases of the spending process. In particular:

- Authorizations: Federal agencies can spend funds only for legally authorized activities. Such authority is what the regular, or "authorizing," committees of Congress provide in passing authorizing legislation. In addition to specifying the uses to which public funds can be put, such legislation typically sets upper limits on the amounts that can be devoted to these purposes. Programs can be so authorized for one year (or less), or for multiple years.

- Budget Authority (Appropriations): While authorizing legislation can set upper bounds on the spending for particular programs, it does not by itself commit actual funds to be used for such purposes, except for one class of programs--the so-called entitlement programs. Entitlement programs are programs like Food Stamps, Social Security, and veterans assistance, the benefits of which are automatically available to all those who meet the eligibility criteria. For these programs, therefore, the amount the government will spend is effectively set by the authorizing committees in the course of defining the eligibility criteria. Entitlement programs account for about 50 percent of total spending.

  For all other programs, the amount available to be spent is provided through the "appropriations process," which involves the action of the appropriations committees in Congress and their respective subcommittees. In formal terms, the appropriations process provides agencies with budget authority, the authority to enter into obligations that will lead to the spending of government funds in the same or future years. It represents, in a sense, the checking account balance the program has in the Treasury. Such authority can be provided for a single year or multiple years.

- Obligations: Once programs are authorized and allocated budget authority, agencies may enter into obligations to draw down the budget authority. Obligations are the amounts of orders placed, contracts awarded, services received, and other transactions which will require payments, or outlays, in the same or future period.

- Outlays: Neither the granting of budget authority nor the making of obligations by itself involves the actual spending of funds. Rather, a fourth term is used to refer to the actual disbursement of funds: outlays.

  The relationship between budget authority and outlays is one of the trickiest parts of budget making. This relationship differs for different programs depending on the amount of planning involved and the speed with which obligations are made and then translated into actual spending. In some programs, such as the procurement of complex military equipment, obligations are entered into far in advance of spending, so that actual outlays lag behind obligations and budget authority. Overall, about 75 percent of budget authority results in outlays in the same year. What this means in practice is that the outlays in any given year may be the result of both budget authority provided in that year and budget authority provided in prior years. Since deficits are measured in terms of actual outlays, this naturally complicates deficit projections as well.

  Under the Reagan budget unveiled in February 1982, a total of $801.9 billion of new budget authority was requested for FY 1983. According to administration estimates, this is expected to translate into outlays of $757.6 billion during FY 1983, $125.7 billion of which is to be based on unspent authority from prior years.

In short, authorizations set up programs and may set limits on the amounts of budget authority that can be allocated to them. Budget authority is the amount of money to be spent on a program. Obligations are the amounts of budget authority that have been committed to be spent. Outlays are the monies actually spent.

II. The Budget Process

The budget process takes place in three major steps: (1) the president's development and submission to Congress of his budget plans, (2) Congress's consideration of the proposals, and (3) agencies' implementation of the package that is agreed on.

- Presidential Submissions: Every January, the president submits to Congress his proposed budget for the fiscal year beginning the upcoming October 1. The proposal includes detailed projections of budget authority and outlays for the coming and future years, and culminates an executive branch process that begins in the prior spring, some eighteen months before the budget for a particular year is to go into effect.

  The January submission also contains a current services budget, which indicates the amounts of spending that would be required in the next fiscal year to maintain the same level of government services that is being provided in the current fiscal year, taking into account inflation and other economic and demographic changes.

The current services figures constitute an important element in the formation of a budget, providing a framework against which modifications can be made. They are also a useful tool in appraising a budget: identifying the cuts and additions the proposed budget makes to the current services projections provides a clear indication of where the level of government services can be expected to decrease and increase.

Between January and October, while Congress considers the budget, the president may submit amendments to the original January proposal. When a new president comes in, he typically forwards a set of amendments to Congress. President Reagan did this in February and March 1981. Changes in economic conditions or policy preferences also may lead to amendments. In July, the president is required to send Congress an update of his budget estimates. In September 1981, after taking fresh stock of the budget situation, President Reagan submitted to Congress a large number of additional amendments to his own March 1981 amendments.

- Congressional Consideration: Congress receives presidential proposals but can alter them in any it wants. Congressional action on the budget takes three different forms: (1) the actions of the authorizing committees in establishing or continuing programs and setting eligibility standards in entitlement programs; (2) the appropriations process, which provides the budget authority agencies need to obligate funds through 13 separate appropriations bills; and (3) the budget process, which involves a separate set of budget committees that define overall spending targets to which the separate appropriations bills and authorizing legislation must adhere.

  By May 15, both houses of Congress are supposed to have agreed on a first concurrent budget resolution. Presidential approval is not required. The resolution sets targets for outlays and budget authority for the total budget and for the nineteen functional areas into which federal programs are divided, including national defense; education, training, employment and social services; and health care.

  Congress considers authorization and appropriations bills in light of the first budget resolution, the president's detailed proposals, and the current policy budget, which is the congressional equivalent of the president's current services budget.

  By September 15, both houses are to have passed the second concurrent budget resolution, which sets binding total and functional spending levels.

  When the budget resolutions set spending levels lower than those in existing laws, reconciliation may be undertaken to bring the laws in line with the spending targets. As originally

conceived, reconciliation was to accompany the second budget resolution. In 1981, however, it was used earlier to constrain the decisions of the authorizing committees.

The appropriations process is supposed to be completed by October 1, the beginning of the fiscal year. When appropriations bills have not been passed by that date, a continuing resolution must be enacted in order for the government to continue spending money. In 1981, the thirteen regular appropriations bills were particularly slow moving, and much of the government functioned throughout FY 1982 on such continuing resolutions. For a short time, between the lapse of the first FY 1982 continuing resolution and the passage of the second, nonessential government activity had to cease because there was no authority for agencies to spend money.

- Implementation and Modifications: Budget authority provided to programs in the appropriations process is obligated by agencies during the fiscal year according to an apportionment schedule set by the director of the Office of Management and Budget.

  Occasionally supplemental appropriations may be desired or required, especially for entitlement programs.

  When the president wants to cut money being spent in the current fiscal year, he may seek to defer spending. Deferrals, however, can be overruled by either house of Congress. In any case, deferral cannot postpone spending beyond the end of the fiscal year.

  Budget authority can be canceled by the passage of a rescission bill. Unless Congress approves a rescission bill within forty-five days after it has been proposed by the president, the budget authority in question must be made available for obligation.

REFERENCE: U.S. General Accounting Office (March 1981), A Glossary of Terms Used in the Federal Budget Process (3rd ed.) (Washington, D.C.: U.S. General Acounting Office).

APPENDIX B

GROUPING OF IRS ACTIVITY CODES FOR USE FOR ANALYSIS OF THE SCOPE OF THE NONPROFIT SECTOR

APPENDIX B

GROUPING OF IRS ACTIVITY CODES USED FOR ANALYSIS OF THE SCOPE OF THE NONPROFIT SECTOR

The Internal Revenue Service maintains an Exempt Organizations Master File based on data reported by nonprofit organizations on yearly filings with the IRS. As part of this file, IRS records for each organization, the first of the three activity-code identifiers that organizations can choose from a 250-code classification scheme to define their activities when they first file for tax exempt status.

Although this IRS coding system has serious problems as detailed in the text, it is the only basis available in the IRS data for sorting out those organizations that involve double-counting or are not part of the charitable service segment of the sector of concern to us here, and of grouping the organizations that do belong into meaningful subsectors.

Noted below, therefore, are (1) an indication of how the IRS activity codes were grouped to produce the aggregates reported in table 2 of chapter 2 of the text; (2) a listing of the activity codes deleted in calculating these aggregates; and (3) a complete listing of IRS activity codes and descriptors.

I. Codes Included for Each Type of Nonprofit Organization

Type of Organization IRS Description	Activity Codes
o Social Services	
- Children & Youth Services	574,320-349,288
- Counseling	563-565,567-573
- Elderly Services	153,382,575
- Services for the Disabled	031,160
- Legal Aid	462,963
- Employment & Training	566,126
- Other	902,005,407,560
o Housing, Community Development, and Citizen Participation	
- Community Development	400,402-406,408,429
- Low-income Housing	380-381,398,399
- Civil Rights	430-432,449
- Conservation & Environmental Protection	350-356,379
- Other Citizen Action	905,906,913,460,461,484, 509,480,510,559

o Education

- Schools, Colleges, Universities	030,032,046
- General Education	120-123,125,481-483,149
- Other Education	035,044
- Research	161,162,181,199,124
- Library	61

o Health Care

- Hospitals	150
- Hospital Auxiliary	151,157,169
- Long-term Care (Nursing Home)	152
- Mental Health	166
- Other Health-related Care	154-156,158-159,165,179, 167,168,164

o Culture, Arts, and Recreation

- Museums, Zoo, Planetarium	060
- Fine and Performing Arts	088-092
- Historic Preservation	062-065
- Other Cultural	093,094,119
- Recreation	038,296-298,300,317

II. Codes Deleted

- Codes clearly and consistently assigned to religious activities	002-008
- Codes given to activities that provided only money and no direct services	39-41,43,163,600-603, 903,909,927,928,922
- Business and professional organizations	200-249
- Mutual benefit organizations	250-279,33,34,36
- Recreation activities other than for youths or handicapped people	280-288,299,301,318,319
- Veterans' activities	907
- Patriotic activities	908
- Other activities (i.e., student-operated business, cemetery or burial activities)	045,900,904,912,914, 915-922,924-930

APPENDIX C

CURRENT-DOLLAR COUNTERPARTS TO TABLES 6, 7, 13, 14

APPENDIX C

CURRENT-DOLLAR COUNTERPARTS TO TABLES 6, 7, 13, 14

The analysis of the changes in overall federal spending in nonprofit fields of activity and of changes in nonprofit revenues from federal sources presented in the body of this monograph are reported in constant 1980 dollars. These figures were derived by converting proposed FY 1982-85 spending levels to 1980 dollars by applying a deflator based on administration economic assumptions and then comparing the results to actual 1980 outlays.

An alternative way to measure the same reality is to express the 1980 outlay levels in the dollars of the years in which the spending is to occur and then compare the proposed spending levels for those years to them. Appendix tables C-1, C-2, C-3, and C-4, which correspond to text tables 6, 7, 13, and 14, provide this alternative expression of the changes being proposed. In particular, they show that expressed in current, instead of constant, dollars, the proposed reduction in federal outlays in fields of nonprofit activity during FY 1982-85 totals $158.2 billion instead of $115 billion; and the proposed reduction in nonprofit revenues from federal sources totals $46.2 billion instead of $33 billion.

Table C-1

Proposed Reductions in Federal Outlays in Fields Where Nonprofit Organizations Are Active, FY 1982-85, Administration Proposals vs. FY 1980 Levels, in Current Dollars (Dollars in billions)

	Outlays				Total
	FY 1982	FY 1983	FY 1984	FY 1985	FY 1982-85
1980 Spending Level[a]	$187.0	$202.8	$219.7	$238.1	$847.7
President's FY 1983 Budget	171.9	167.0	170.6	180.0	689.5
Cuts	-$ 15.1	-$ 35.8	-$ 49.1	-$ 58.2	-$158.2
(Percent Change)	(- 8.1)	(- 17.6)	(- 22.3)	(- 24.4)	(- 18.7)

a. These figures were obtained by inflating the actual 1980 spending level using the economic assumptions in the president's FY 1983 budget. A special inflator was used for health care finance.

Table C-2

Proposed Changes in Federal Outlays in Nonprofit Fields of Activity Field, FY 1982-85, Administration Proposals vs. FY 1980 Levels, in Current Dollars
(Dollars in billions)

	Changes from FY 1980 Levels				Total
	FY 1982	FY 1983	FY 1984	FY 1985	FY 1982-85
Social Welfare	-$11.0	-$18.3	-$20.5	-$22.3	-$ 72.0
Education/Research	- 2.4	- 7.5	- 12.0	- 14.7	- 36.6
Health Care	- 2.4	- 7.0	- 10.8	- 14.3	- 34.5
Income Assistance	+ 1.1	- 2.2	- 4.8	- 5.2	- 11.0
International Aid	--	--	--	- 0.4	- 0.4
Arts/Culture	- 0.1	- 0.2	- 0.3	- 0.4	- 1.0
Environment	- 0.3	- 0.6	- 0.8	- 0.9	- 2.7
TOTAL	-$15.1	-$35.8	-$49.1	-$58.2	-$158.2

a. 1980 spending levels were inflated by using the economic assumptions in the president's FY 1983 budget. A special inflator was used for health care finance.

Table C-3

Projected Nonprofit Revenues from Federal Sources,
FY 1982-85, President's Budget vs. Actual
FY 1980 Levels, in Current Dollars
(Dollars in billions)

	Nonprofit Revenues from Federal Sources				Total
	FY 1982	FY 1983	FY 1984	FY 1985	FY 1982-85
Actual 1980 Level[a]	$53.2	$58.6	$64.8	$71.8	$248.4
President's Budget	48.6	48.1	50.6	54.9	202.3
Cuts	-$4.6	-$10.5	-$14.2	-$16.8	-$ 46.2
(Percent Change)	(-8.7)	(-17.9)	(-21.9)	(-23.4)	(- 18.6)

a. These figures were obtained by inflating the actual FY 1980 spending level using the economic assumptions in the president's FY 1983 budget. A special inflator was used for health care finance.

Table C-4

Proposed Changes in Nonprofit Revenues from Federal Sources, FY 1982-85, President's Budget vs. FY 1980 Actual Spending Levels, by Type of Nonprofit Organization, in Current Dollars (Dollars in billions)

	Enacted or Projected Changes from FY 1980 Levels[a]				
	Enacted	Proposed			
Type of Organization	FY 1982	FY 1983	FY 1984	FY 1985	Total 1982-85
Social Service	-$2.2	-$ 4.6	-$ 5.1	-$ 5.7	-$17.6
Community Development	- 0.7	- 1.5	- 2.1	- 2.0	- 6.4
Education/Research	- 0.5	- 1.3	- 2.2	- 2.7	- 6.8
Health Care	- 1.0	- 2.7	- 4.3	- 5.9	- 13.8
International	- 0.1	- 0.2	- 0.2	- 0.3	- 0.7
Arts	- 0.1	- 0.2	- 0.3	- 0.3	- 0.1
TOTAL	-$4.6	-$10.5	-$14.2	-$16.8	-$46.2

a. 1980 spending levels were inflated by using the economic assumptions in the president's FY 1983 budget. A special inflator was used for health care finance.